

# State of Rhode Island



## Comprehensive Annual Financial Report

*for the year ended June 30, 2016*

**Gina M. Raimondo, Governor**

**Department of Administration**

**Michael DiBiase, Director of Administration**

**Office of Accounts and Control**

**Peter B. Keenan, CPA, State Controller**

# **2016**

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# State of Rhode Island



## Introductory Section

**Comprehensive Annual Financial Report**

*for the year ended June 30, 2016*

**2016**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF ADMINISTRATION

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December 23, 2016

To the Citizens, Governor, and Members of the General Assembly of the State of Rhode Island:

In accordance with Section 35-6-1 of the General Laws, I am pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the State of Rhode Island and Providence Plantations for the fiscal year ended June 30, 2016.

## INTRODUCTION TO REPORT

**Responsibility:** This report was prepared by the State's Department of Administration - Office of Accounts and Control. Responsibility for the accuracy, completeness and fairness of the presentation rests with management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material aspects in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board. Furthermore, we believe this report includes all disclosures necessary to enable the reader to gain an understanding of the State's financial activities.

**Independent Auditors:** The State's basic financial statements have been audited by the Office of the Auditor General as required by Section 35-7-10 of the General Laws. The Independent Auditor's Report is included in the Financial Section of this report.

**Internal Control Structure:** Management of the State is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that the assets of the State are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow for preparation of financial statements in conformity with GAAP. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management. Managers in all branches and components of government are required to maintain comprehensive internal control systems, to regularly evaluate the effectiveness and adequacy of these systems by internal reviews, and to submit an annual report on these internal controls to the Governor in accordance with the 1986 Financial Integrity and Accountability Act.

**Financial Reporting Entity:** The funds and component units included in the CAFR are those for which the State is accountable, based on criteria for defining the reporting entity as prescribed by GAAP. The criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits or impose specific financial burdens on the State. Additional information about the State reporting entity can be found in Note 1 to the basic financial statements.

**Management's Discussion and Analysis (MD&A):** The MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A also includes information on a number of important factors that are expected to affect future operations of our State. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.



## PROFILE OF THE STATE

*Government Structure:* As shown in the organizational chart that follows this transmittal letter, State government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the State's Constitution, which can be amended only by a majority vote of the State's citizens, and in the Rhode Island General Laws, which can be amended only by the General Assembly. State government services provided to citizens include building and maintaining roads; providing public safety, health and environmental protection services to protect the general welfare of the State's citizens; assisting adults, children and families through difficult times resulting from abuse, neglect, illness or unemployment; promoting an attractive business climate to encourage economic development; and protecting natural resources for conservation and recreational activities. The State also provides significant support to its three institutions of higher education and to the public schools.

*Budgetary Information: Annual and Long-term:* Preparation and submission of the budget is governed by both the State's Constitution and Rhode Island General Laws. The budget, as enacted by the General Assembly, contains a complete plan of appropriations supported by estimated revenues. Estimated general revenues are determined by a consensus of the Revenue Estimating Conference (Conference), which is made up of the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. The Conference was established to provide a stable and accurate method of financial planning and budgeting to facilitate the adoption of a balanced budget wherein appropriations and expenditures do not exceed anticipated revenues, as is required by the Constitution of Rhode Island. Appropriations for restricted and dedicated revenue sources are supported by estimates submitted by the respective State agencies.

There is a State Budget Reserve Account (Reserve) which is maintained within the General Fund. According to the State's Constitution, general revenue appropriations in the General Fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the General Fund available balance from the prior fiscal year. Excess revenue is transferred to the Reserve. If the balance in the Reserve exceeds five percent of the total general revenues and opening surplus, the excess is transferred to the Rhode Island Capital Plan Fund to be used for capital projects. The Reserve, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year, such appropriations to be approved by a majority of each chamber of the General Assembly.

A five-year financial projection is prepared annually as part of the Governor's budget submission pursuant to Section 35-3-1 of the Rhode Island General Laws. The five-year financial projection includes tables that present anticipated revenues and expenditures for the ensuing five fiscal years. Also included are tables that provide detail on the planning values used in these projections. The planning values reflect policy assumptions, as well as economic and demographic forecasts.

The purpose of the five-year forecast is to provide a baseline fiscal outlook for the State. Although the forecast may be utilized as a benchmark in assessing the affordability and desirability of alternative policy options, caution should be exercised in the interpretation of the forecast.

*Economic Conditions and Outlook:* Rhode Island's preliminary seasonally adjusted unemployment rate in September 2016 was 5.6 percent. The rate is unchanged from September 2015 and less than half of the recession era high of 11.3 percent. The State's unemployment rate continued to remain above the U.S. unemployment rate of 5.0 percent in September 2016. While the Rhode Island unemployment rate has remained consistently greater than the national rate, the gap between these two rates has fluctuated between 0.4 and 0.7 percentage points in the twelve months ending with September 2016. In its testimony to the November 2016 Revenue Estimating Conference, IHS Markit (IHS) noted that Rhode Island's economy is projected to grow sluggishly over the next eight quarters, with Rhode Island non-farm employment growth and Rhode Island personal income growth expected to be below those of the U.S. economy and rank 45<sup>th</sup> and 50<sup>th</sup>, respectively, when compared to all fifty states. IHS' economic analyst also noted that, even under an optimistic scenario of accelerating productivity, stronger global growth and

a weaker dollar, and heightened capital spending and homebuilding, Rhode Island's non-farm employment growth is not expected to exceed 1.0 percent annually from 2017 through 2022.

The Rhode Island Department of Labor and Training (DLT) testified at the November 2016 Revenue Estimating Conference that Rhode Island lost 39,800 jobs during the Great Recession, and that as of September 2016, the State had recovered 34,300 of those lost jobs, or 86.1 percent. Sectors which have more than recovered the jobs lost in the Great Recession include Professional and Business Services, +7,900; Accommodations and Food Services, +7,700; Arts, Entertainment, and Recreation, +1,500; Transportation and Utilities, +600; and Other Services, +100. Sectors which still have not fully recovered the jobs lost in the Great Recession include: Manufacturing, -10,100; Construction, -6,000; Financial Activities, -3,500; Retail Trade, -3,200; and Wholesale Trade, -600. The Education and Healthcare and Social Assistance sectors did not suffer any job losses during the Great Recession, while the Government and Information sectors have shed even more jobs since the Great Recession.

The November 2016 Consensus Economic Forecast indicates that the State will experience its peak rate of growth in non-farm employment in fiscal year 2016 at 1.1 percent, declining to 0.9 percent in fiscal year 2017 and 0.5 percent in fiscal year 2018. Personal income growth is projected to peak later in the forecast cycle, building up to a peak rate of growth of 4.3 percent in both fiscal year 2019 and fiscal year 2020 before declining to 4.1 percent annually for the duration of the forecast period. Wage and salary growth is projected to reach its peak rate of growth in fiscal year 2022 at 4.4 percent. Prior to reaching its peak, wage and salary growth will rise sharply and then stabilize over the fiscal year 2017 through fiscal year 2021 period. Finally, the unemployment rate is expected to remain relatively stable, fluctuating between 5.3 percent and 5.6 percent from fiscal year 2017 through fiscal year 2022.

*Major Initiatives:* The following section highlights several notable initiatives that will likely impact revenue and expenditure trends in fiscal year 2017 and beyond.

- Changes impacting personal income taxes include the exemption of up to \$15,000 of pension and annuity income from state personal income tax for filers who have reached full Social Security retirement age, including single filers with adjusted gross incomes of up to \$80,000 and joint filers with adjusted gross incomes of up to \$100,000. This change is effective for the tax year beginning January 1, 2017. In addition, the value of the Earned Income Tax credit for low and moderate wage earners was increased from 12.5 percent to 15.0 percent of the federal credit, effective January 1, 2017.
- The fiscal year 2017 Budget as Enacted also included legislation that lowered the minimum corporate tax from \$450 to \$400, effective January 1, 2017.
- The fiscal year 2017 Budget as Enacted makes changes to unemployment insurance taxes that some employers pay and lowers the amount the UI trust fund must hold in reserve. These changes should save Rhode Island employers an estimated \$30 million annually from a reduction in unemployment insurance taxes.

The fiscal year 2017 Budget includes one new program and continues a number of economic development initiatives started in fiscal year 2016 that are under the control of the Secretary of Commerce. These include:

- The Air Service Development Fund is a new program that will provide financial support to airlines that create additional direct routes from T. F. Green Airport to major metropolitan areas in the United States.
- The First Wave Closing Fund will provide a company with financing to ensure that certain transactions that are deemed critical to the State's economy occur.
- The I-195 Redevelopment Project Fund is a fund to provide developers and businesses with financing for capital investment, including land acquisition, in order to promote the development of the land. The Fund would be administered by the I-195 Redevelopment District Commission.

- The Main Street Streetscape Improvement Fund will award loans, matching grants and other forms of financing to enhance sidewalks, signage of public space, and lighting in order to create an attractive environment in local business districts.
- Incentives for Tax Stabilization establishes an incentive program allowing the Commerce Corporation to enter into agreements to reimburse qualifying communities up to ten percent of foregone property tax revenues in exchange for the municipalities providing developers with tax stabilization agreements for redeveloped and rehabilitated properties.
- The Small Business Assistance Program is for businesses with less than 200 employees that are having difficulties obtaining financing from traditional lending organizations. The maximum amount that any one business can obtain from the fund is \$750,000, and ten percent of the funding must be set aside for a microloan program to be administered by a third party with expertise in microloans.
- Innovation Vouchers is a program for small businesses with less than 500 employees to purchase research and development support from the State's institutions of higher education and other providers. The program would allow small businesses to earn \$5,000 to \$50,000.
- The Innovation Network Grant Program will provide matching grants to support promising companies in advanced industries, technology, and other strategically important sectors.
- Industry Cluster Grants will provide startup and technical assistance grants ranging from \$75,000 to \$250,000 and provide competitive grants ranging from \$100,000 to \$500,000 for activities within an industry cluster and for closing industry cluster gaps.

The fiscal year 2017 Budget also continues a number of tax credits and incentive programs, including:

- The Anchor Tax Credit is a tax credit program for businesses that successfully solicit the permanent relocation of a separate business or the permanent relocation of at least ten employees of that separate business. Credits may be applied against corporate income taxes.
- Tax Increment Financing is a program in which the Commerce Corporation may contract with developers to develop or redevelop specific geographic areas in exchange for up to 75.0 percent of State revenues realized as a result of the development project, as calculated by the Division of Taxation.
- The Rebuild Rhode Island Tax Credit is a partially refundable tax credit of up to 30.0 percent of project costs for capital investment projects. It includes a maximum allowable credit of \$15.0 million and reporting requirements for both the Commerce Corporation and the Division of Taxation, and it establishes a three-year sunset for the program.
- The New Qualified Jobs Tax Credit is a new job creation and development tax incentive program for businesses. Qualified businesses may receive credits from \$2,500 up to \$7,500 per new full-time job, subject to certain criteria including the creation of new jobs in targeted industries, jobs created in specific communities, and jobs created by businesses that relocate from out of state. Credits may not exceed the income tax withholdings of the employees in the new jobs.

The fiscal year 2017 Budget also includes a number of initiatives to achieve savings in the Medicaid program from the implementation of the Unified Health Infrastructure Project, which should maximize federal opportunities and improve efficiencies through automated enrollment and enhanced administrative efficiencies.

In addition, the fiscal year 2017 Budget includes additional funding to support a pay increase for direct care workers in the privately operated system for adults with developmental disabilities.

General obligation bonds, recently approved by the voters in November 2016, will be issued over the next several years to support the following projects:



- Veterans' Home - \$27.0 million
- URI School of Engineering Phase II - \$25.5 million
- URI Affiliated Innovation Campus - \$20.0 million
- Green Economy Bond - \$35.0 million
- Quonset Point Davisville Pier Infrastructure - \$50.0 million
- Port of Providence Infrastructure - \$20.0 million
- Affordable Housing and Blight Remediation - \$50.0 million

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Rhode Island and Providence Plantations for the fiscal year ended June 30, 2015 CAFR. This is the fifth consecutive year that Rhode Island has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our fiscal year ended June 30, 2016 CAFR continues to meet the Certificate of Achievement Program's requirements and we will be submitting it to the GFOA to determine its eligibility for another certificate.

The audited financial statements within the CAFR have received an unmodified opinion from the independent auditors. We are proud of this as well as the GFOA award, as they are not guaranteed from year to year.

I wish to express my sincere appreciation to the many individuals who assisted and contributed to the timely preparation of this report. It could not have been accomplished without the professionalism, hard work and dedication demonstrated by the entire staff of the Office of Accounts and Control, the Office of the Auditor General, and numerous other State agencies. I also would like to thank the Governor and members of the General Assembly for their interest and support in planning and conducting the financial operations of the State in a very responsible and progressive manner.

Respectfully submitted,



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Peter B. Keenan, CPA  
State Controller



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of Rhode Island  
and Providence Plantations**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

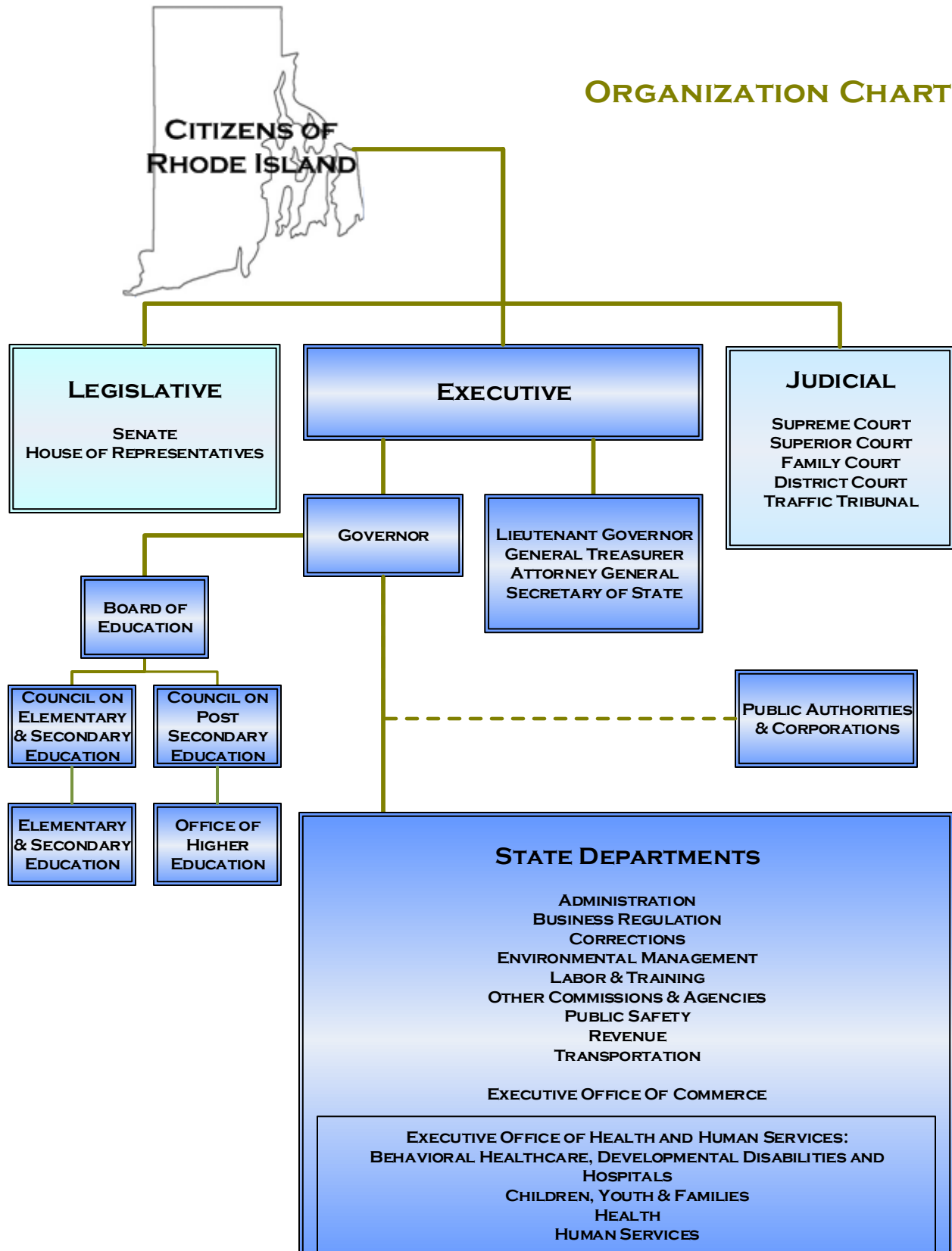
**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Einar". The signature is written in a cursive, flowing style.

Executive Director/CEO

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## ORGANIZATION CHART



As of June 30, 2016



***STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS***

***OFFICIALS OF STATE GOVERNMENT***

**EXECUTIVE BRANCH**

**Governor**

Gina M. Raimondo

**Lieutenant Governor**

Daniel J. McKee

**Secretary of State**

Nellie M. Gorbea

**General Treasurer**

Seth M. Magaziner

**Attorney General**

Peter F. Kilmartin

**LEGISLATIVE BRANCH**

**Senate**

**President of the Senate**

M. Teresa Paiva-Weed

**House of Representatives**

**Speaker of the House**

Nicholas A. Mattiello

**JUDICIAL BRANCH**

**Chief Justice of the Supreme Court**

Paul A. Suttell

# State of Rhode Island



## Financial Section

**Comprehensive Annual Financial Report**

*for the year ended June 30, 2016*

**2016**



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

**Dennis E. Hoyle, CPA - Auditor General**

oag.ri.gov

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## **INDEPENDENT AUDITOR'S REPORT**

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 34% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 43% of the assets and 35% of the revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

The financial statements for these entities were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued



Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As described in Note 1(U) *Changes in Reporting Entity* and Note 17(F) *Restatements – Net Position*, the State's fiscal 2016 financial statements include the Rhode Island Higher Education Savings Trust as a private-purpose trust. Beginning net position of the fiduciary funds was increased by \$7.4 billion. Additionally, beginning net position of the discretely presented component units was increased by a net amount of \$516 million primarily to reflect the inclusion of two entities previously considered related organizations.

The fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 27% of the assets of the pension and other employee benefit trusts and 14% of the assets of the aggregate remaining fund information, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or general partners.

Our opinions are not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 14 through 37, the Budgetary Comparison Schedules on pages 153 through 157, and information about the State's pension plans and other postemployment benefit plans on pages 158 through 177 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational,

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

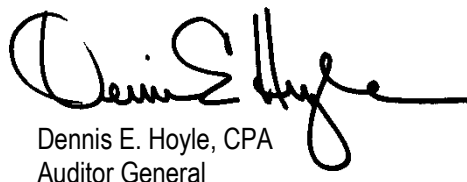
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary information, such as combining and individual nonmajor fund financial statements on pages 179 through 205 which includes the budgetary comparison schedule for the Temporary Disability Insurance (TDI) Fund on page 181, and the other information, such as the introductory and statistical sections on pages 3 through 10 and pages 207 through 226, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the budgetary comparison schedule for the TDI Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual nonmajor fund financial statements and the budgetary comparison schedule for the TDI Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

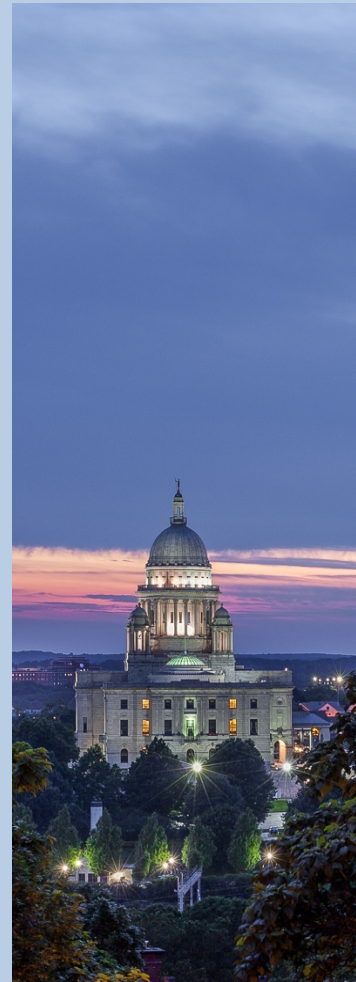
In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report will be included in the State's 2016 *Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA  
Auditor General

December 23, 2016

# **Management's Discussion and Analysis**



**State of Rhode Island  
Fiscal Year Ended  
June 30, 2016**





Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2016. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the financial statements, notes and required supplementary information which follow the MD&A should be reviewed in their entirety.

## Financial Highlights – Primary Government

### Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State was less than total liabilities plus deferred inflows of resources on June 30, 2016 by (\$294.3) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, (\$4.3) billion was reported as unrestricted net position (deficit), \$1.0 billion as restricted net position, and \$3.0 billion as net investment in capital assets.
- **Changes in Net Position:** The increase in the primary government's net position in fiscal year 2016 of \$237.9 million which reduced the overall net deficit reported by the State at June 30, 2016 was mostly attributable to the following factors:
  - Governmental activities experienced continued revenue growth in fiscal year 2016. A \$47.6 million increase in charges for services was mostly attributable to the General Government and Human Services functions. In addition, general revenues increased by \$46.5 million over fiscal year 2015 mostly attributable to an increase in inheritance taxes for a few individually significant return filings and additional fees collected by the Division of Motor Vehicles for purposes of funding the State's Highway Maintenance fund.
  - Total governmental activities expenses increased by \$310.3 million in fiscal year 2016. Expenses increased in all functional categories with notable increases in general government and education relating to additional investments in education and economic development initiatives made by the State. Public safety expenses also increased significantly due primarily to pension expense for non-contributory plans of the State Police and Judges being determined based on a lower discount rate in fiscal year 2016. The above increases in total expenses reflect interest and other charges which were reduced by approximately \$38 million in fiscal year 2016 resulting from certain debt refundings that are more fully described in the Debt Administration section of this Management's Discussion and Analysis.
  - Business-type activities experienced an increase in net position of \$134 million during the fiscal year mostly attributable to the Employment Security Fund operating at a \$130.7 million surplus in fiscal year 2016. The Lottery also contributed approximately \$369 million in resources to the governmental activities in fiscal year 2016.

## Fund Financial Statements

### Governmental Funds

- The State's governmental funds reported a combined ending fund balance of \$1,161.9 million, a slight decrease of \$10.3 million in comparison with the previous fiscal year. This is primarily a result of the decrease in the Other Governmental Funds' fund balance of \$41.4 million, which was due to a number of factors including the expenditure of prior years' debt proceeds.
- As of June 30, 2016, the State's General Fund reported an ending fund balance of \$509.4 million, a slight increase of \$7.5 million as compared to the prior year. This favorable change is primarily attributable to a net increase in tax revenues due to several significant inheritance tax payments which were offset by slight declines, compared to fiscal year 2015, in revenues from personal income and corporate income taxes along with a slight decline in lottery revenue. On the expenditure side, total general revenue expenditures were slightly under budget (\$24.7 million) due to careful management and close monitoring in this area.
- As of June 30, 2016, the State's Intermodal Surface Transportation (IST) Fund reported an ending fund balance of \$136.1 million, an increase of \$23.6 million as compared to the prior year. The increase was mainly due to the decrease in debt service principal payments of \$33.9 million due to a significant refunding of debt.

### Proprietary Funds

- The Rhode Island State Lottery transferred \$369.8 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of \$12.1 million in comparison with the previous fiscal year. Increased sales of traditional lottery products were more than offset by a decline in video lottery net terminal income revenues of 5.3 percent in fiscal year 2016 as Massachusetts opened its first gaming facility, a slots parlor in nearby Plainville, MA, in late June of 2015.
- The Employment Security Fund ended the fiscal year with a net position of \$281.7 million, an increase of \$130.7 million from fiscal year 2015. This favorable change is principally attributable to full repayment of prior borrowings and a slight reduction in benefits paid due to the improving employment level in the State as well as a steady level of tax revenue.
- The Rhode Island Convention Center Authority ended the fiscal year with a net position deficiency of (\$56.9) million, a deficit decrease of \$3.4 million compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and because the repayment term for the debt is generally longer than the depreciable life of the assets.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

## Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position." Over time, increases and decreases in the government's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods -- for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net position and change in net position of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of State government and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are



more or fewer financial resources that can be spent in the near future to finance the State's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities in the government-wide financial statements.

Governmental funds include the general fund, special revenue, capital projects, debt service, and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1 C. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds -- enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds -- the Lottery Fund, the Rhode Island Convention Center Authority (RICCA) Fund, and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.
- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other post-employment benefits trusts, an external investment trust, a private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

## Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are discussed in Note 1 B.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

## Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's pension obligations and progress in funding its obligation to provide other post-employment benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

## Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

## Government-Wide Financial Analysis

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (deficit) (governmental and business-type activities) totaled (\$294.3) million at the end of fiscal year 2016, compared to (\$532.2) million at the end of the prior fiscal year, as restated. Governmental activities reported unrestricted net position (deficit) of (\$4,306.3) million.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used.

## Fiscal Year Ended June 30, 2016

State of Rhode Island's Net Position as of June 30, 2016 and 2015  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015*	2016	2015	2016	2015*
Current and other assets	\$ 2,218,492	\$ 2,180,618	\$ 321,087	\$ 187,869	\$ 2,539,579	\$ 2,368,487
Capital assets	4,044,868	3,857,807	146,304	154,569	4,191,172	4,012,376
Total assets	6,263,360	6,038,425	467,391	342,438	6,730,751	6,380,863
Deferred outflows of resources	340,857	296,111	6,230	6,431	347,087	302,542
Long-term liabilities outstanding	5,822,768	5,451,838	216,946	228,954	6,039,714	5,680,792
Other liabilities	1,166,963	1,177,042	49,937	46,335	1,216,900	1,223,377
Total liabilities	6,989,731	6,628,880	266,883	275,289	7,256,614	6,904,169
Deferred inflows of resources	115,200	302,235	300	1,166	115,500	303,401
Net position (deficit):						
Net investment in capital assets	3,063,627	2,934,439	(57,493)	(61,956)	3,006,134	2,872,483
Restricted	741,971	841,777	283,901	155,682	1,025,872	997,459
Unrestricted	(4,306,312)	(4,380,849)	(19,970)	(21,312)	(4,326,282)	(4,402,161)
Total net position (deficit)	\$ (500,714)	\$ (604,633)	\$ 206,438	\$ 72,414	\$ (294,276)	\$ (532,219)

\*-Restated. See Note 17 F for an explanation of the restatements.

As indicated above, the State reported a balance in unrestricted net position (deficit) of (\$4.3) billion as of June 30, 2016. Two primary factors, which are discussed below, contributed to this deficit.

The State has adopted Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. As required by Statements No. 68 and 73 the State recognizes the net pension liability for all of the pension plans it has funding responsibility for. Recognition of this liability has had a significant adverse impact on unrestricted net position. At June 30, 2016 the net pension liability related to governmental activities was \$3.23 billion and the net pension liability related to business-type activities was \$15 million.

Another significant contributing factor creating the deficit in unrestricted net position is the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units (including the University of Rhode Island), and non-profit organizations within the State to fund specific projects. As of June 30, 2016 approximately \$590.6 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;

- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not utilized for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2016 approximately \$695.0 million of principal and \$85.2 million of accreted interest are included in the State's debt.
- Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued \$150.0 million and \$75.0 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2016, approximately \$107.0 million of such bonds are outstanding.
- The State has entered into certain capital lease agreements, known as Certificates of Participation (COPS), the proceeds of which are to be used, for example, by the State's university and colleges for energy conservation projects or by local school districts to improve technology infrastructure on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2016, approximately \$41.0 million is outstanding relating to these projects.

In the above instances, the primary government records a liability for the outstanding debt, but no related capitalized asset is recorded. A cumulative deficit in unrestricted net position results from financing these types of projects through the years.



## Changes in Net Position

The State's overall net position for the primary government improved by \$237.9 million during fiscal year 2016. Total revenues of \$8,028.7 million increased by \$82.9 million compared to fiscal year 2015. The favorable results were aided by increased general revenues due primarily to several significant non-recurring inheritance tax payments, as well as slight increases related to charges for services as well as operating grants and contributions. The State's expenses, which cover a wide range of services, increased by \$322.9 million. This net increase, which occurred primarily in the education, general government, public safety and transportation categories, was caused by a number of factors including significant investments in education as well as a number of new economic development initiatives. Offsetting these cost increases were savings in debt service costs due to a significant refunding of debt that occurred during fiscal year 2016.

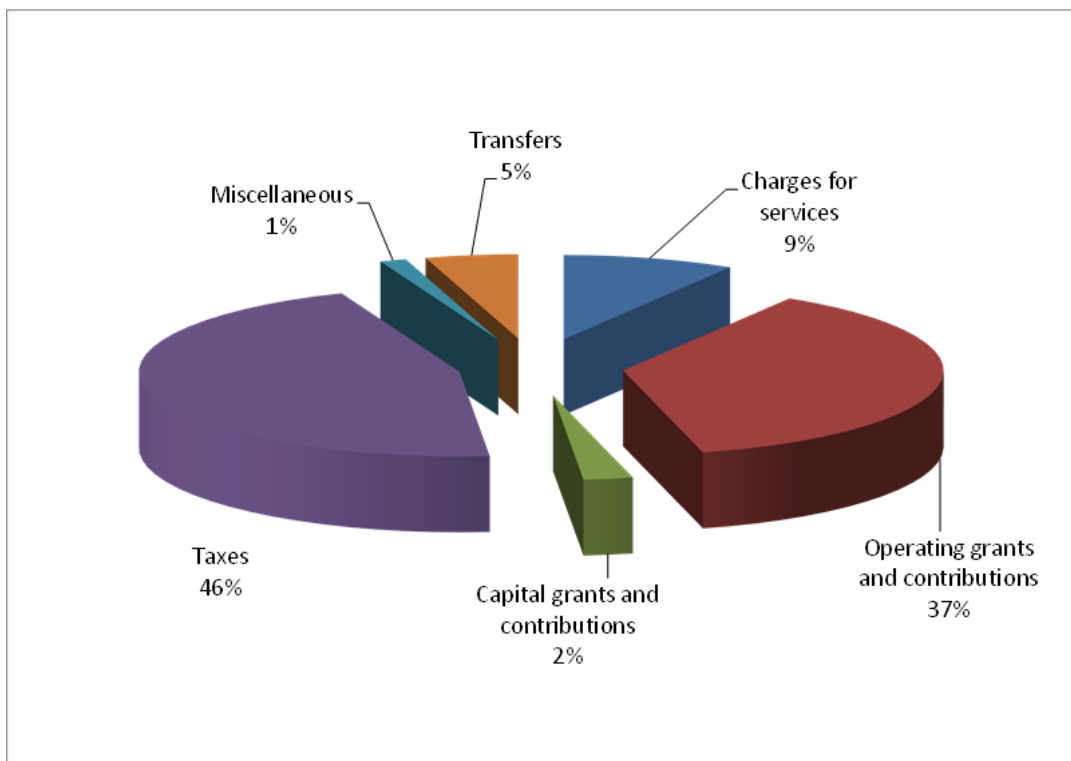
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

State of Rhode Island's Changes in Net Position  
For the Fiscal Year Ended June 30, 2016 and 2015  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 624,753	\$ 577,157	\$ 1,177,083	\$ 1,163,752	\$ 1,801,836	\$ 1,740,909
Operating grants and contributions	2,677,431	2,666,243	1,558	839	2,678,989	2,667,082
Capital grants and contributions	178,628	217,604			178,628	217,604
General revenues:						
Taxes	3,266,347	3,206,935			3,266,347	3,206,935
Interest and investment earnings	3,134	3,212	164	186	3,298	3,398
Miscellaneous	95,529	108,375	4,106	1,531	99,635	109,906
Total revenues	6,845,822	6,779,526	1,182,911	1,166,308	8,028,733	7,945,834
Program expenses:						
General government	769,469	695,611			769,469	695,611
Human services	3,652,875	3,631,236			3,652,875	3,631,236
Education	1,595,289	1,472,786			1,595,289	1,472,786
Public safety	545,329	478,854			545,329	478,854
Natural resources	87,537	83,979			87,537	83,979
Transportation	343,270	283,085			343,270	283,085
Interest and other charges	83,899	121,845			83,899	121,845
Lottery			507,199	484,293	507,199	484,293
Convention Center			48,905	48,628	48,905	48,628
Employment Security			157,018	167,527	157,018	167,527
Total expenses	7,077,668	6,767,396	713,122	700,448	7,790,790	7,467,844
Excess (deficiency) before transfers	(231,846)	12,130	469,789	465,860	237,943	477,990
Transfers	335,765	345,190	(335,765)	(345,190)		
Special items		(5,000)				(5,000)
Change in net position	103,919	352,320	134,024	120,670	237,943	472,990
Net position (deficit) - Beginning	(596,579)	(948,899)	72,414	(48,256)	(524,165)	(997,155)
Cumulative effect of prior period adjustments	(8,054)				(8,054)	
Net position (deficit) - Beginning, as restated	(604,633)	(948,899)	72,414	(48,256)	(532,219)	(997,155)
Net position (deficit) - Ending	\$ (500,714)	\$ (596,579)	\$ 206,438	\$ 72,414	\$ (294,276)	\$ (524,165)

**Chart 1** depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2016.

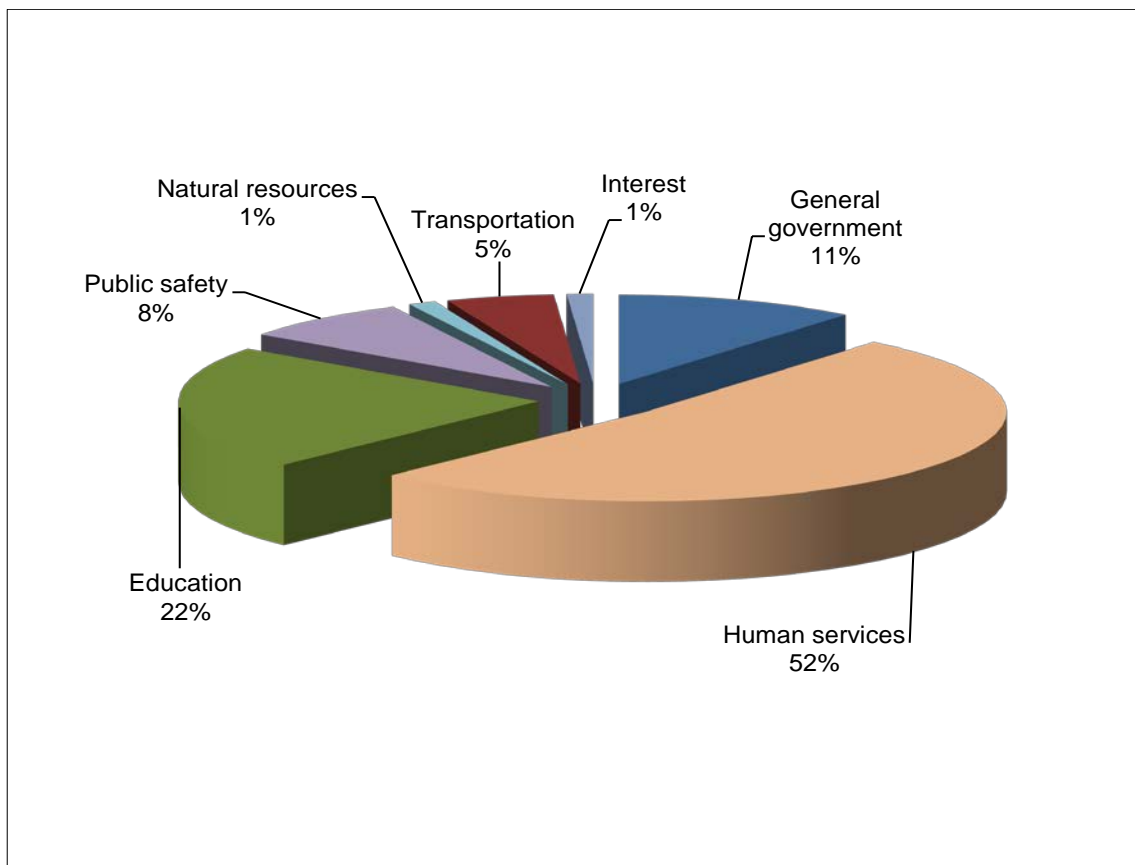
**Chart 1 - Revenues and Transfers - Governmental Activities**



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2016 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contributions represented 37% of the total in fiscal year 2016.

**Chart 2** depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2016.

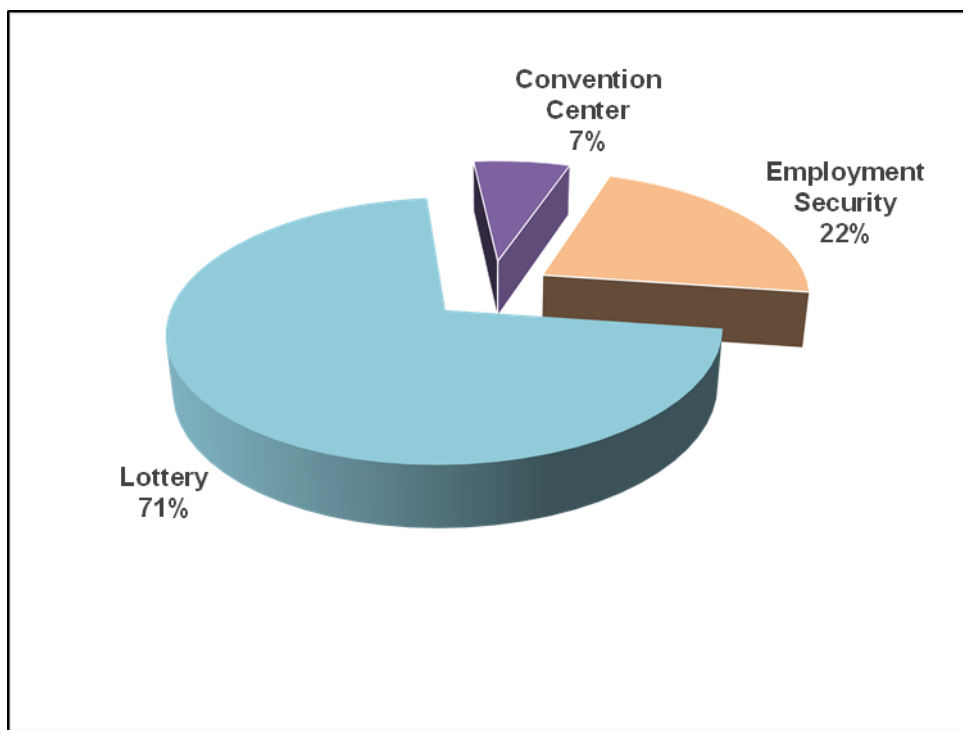
**Chart 2 - Program Expenses - Governmental Activities**



The relative mix of program expenses for governmental activities remained about the same in fiscal year 2016 as in the prior fiscal year. There were slight increases in general government expenses due to a number of new economic development programs and transportation as a result of increased investments in this area. A slight decline in interest expense resulted from a significant refunding of debt that occurred during fiscal year 2016.

**Chart 3** depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2016.

**Chart 3 – Program Expenses – Business Type Activities**



The relative mix of expenses for business type activities changed slightly as spending on employment security programs declined due to the improving local economy and lower unemployment rates.



## Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$1,161.9 million, a decrease of \$10.3 million from June 30, 2015. A breakdown of the components follows (expressed in thousands):

	2016	2015*	Increase (decrease) from 2015	
			Change	Percent
Governmental Funds				
Nonspendable	\$ 174	\$ 174	\$	
Restricted	747,880	795,076	(47,196)	-5.94%
Unrestricted				
Committed	43,150	13,288	29,862	224.73%
Assigned	137,114	130,964	6,150	4.70%
Unassigned	233,577	232,645	932	0.40%
Total	<u>\$ 1,161,895</u>	<u>\$ 1,172,147</u>	<u>\$ (10,252)</u>	-0.87%

\*- Reclassified to conform to current year presentation. See Note 7 for more information.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More Information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form, or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by constitutional provisions or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.
- Unassigned fund balance – In the State's General Fund, the residual classification for amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The \$47.2 million decrease in the restricted portion of the fund balance results primarily from expenditures in fiscal year 2016 of the proceeds of certain prior year debt issuances.
- The net increase of \$29.9 million in the committed portion of the unrestricted fund balance primarily resulted from an increase of \$26.8 million in the RI Highway Maintenance Account within the Intermodal Surface Transportation Fund. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.

### General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2016	2015*	Increase (decrease) from 2015	
			Change	Percent
Restricted	\$ 133,193	\$ 134,231	\$ (1,038)	-0.77%
Unrestricted				
Committed	3,975	2,561	1,414	55.21%
Assigned	137,114	130,964	6,150	4.70%
Unassigned	235,096	234,131	965	0.41%
Total	<u>\$ 509,378</u>	<u>\$ 501,887</u>	<u>\$ 7,491</u>	<u>1.49%</u>

\*- Reclassified to conform to current year presentation. See Note 7 for more information.

Revenues and other sources of the General Fund totaled \$6.6 billion in fiscal year 2016, an increase of \$47.8 million or 0.73%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

	2016	2015	Increase (decrease) from 2015	
			Amount	Percent
Revenues				
Taxes:				
Personal income	\$ 1,211,678	\$ 1,225,561	\$ (13,883)	-1.13%
Sales and use	1,173,770	1,168,852	4,918	0.42%
General business	428,573	435,219	(6,646)	-1.53%
Other	81,519	44,802	36,717	81.95%
Subtotal	<u>2,895,540</u>	<u>2,874,434</u>	<u>21,106</u>	<u>0.73%</u>
Federal grants	2,610,735	2,619,412	(8,677)	-0.33%
Restricted revenues	241,872	227,631	14,241	6.26%
Licenses, fines, sales, and services	355,731	326,003	29,728	9.12%
Other general revenues	52,701	59,364	(6,663)	-11.22%
Subtotal	<u>3,261,039</u>	<u>3,232,410</u>	<u>28,629</u>	<u>0.89%</u>
Total revenues	<u>6,156,579</u>	<u>6,106,844</u>	<u>49,735</u>	<u>0.81%</u>
Other sources				
Transfer from Lottery	369,761	381,936	(12,175)	-3.19%
Other transfers	74,210	69,007	5,203	7.54%
Capital leases	5,021		5,021	
Total revenues and other sources	<u>\$ 6,605,571</u>	<u>\$ 6,557,787</u>	<u>\$ 47,784</u>	<u>0.73%</u>

Fiscal year 2016 personal income taxes fell modestly from fiscal year 2015 levels, declining \$13.9 million or 1.1 percent. Final payments, payments made with a return, and extension payments decreased by 10.0 percent while estimated payments rose a modest 2.1 percent. The decrease in final payments and the modest rise in estimated payments reflect the uneven performance of the state's economy between the two fiscal years. Personal income tax withholding payments decelerated to a rate of growth of 2.5 percent in fiscal year 2016. The tempered increase in withholding tax payments was consistent with the declining rate of decrease in the state's unemployment rate, from 6.7 percent in fiscal year 2015 to 5.5 percent in fiscal year 2016, and with the slowing of the rate of growth in non-farm employment between the two fiscal years.

The State's unemployment rate continued to decline as, according to IHS Markit, it fell from 6.7 percent in fiscal year 2015 to 5.5 percent in fiscal year 2016, a decline of 1.2 percentage points or slightly more than half as much as the 2.1 percentage points decline experienced between fiscal year 2014 and fiscal year 2015. Nominal personal income growth fell from 4.4 percent in fiscal year 2015 to 3.4 percent in fiscal year 2016. General sales and use tax revenue showed meager gains of 0.9 percent in fiscal year 2016 over fiscal year 2015, attributable in large part to a narrowing of the general sales tax base resulting from the exemption of energy used by non-manufacturing commercial enterprises from the sales and use tax. Fiscal year 2016 motor vehicle use tax revenues increased by 8.7 percent, more than double the 4.0 percent rate of growth between fiscal year 2014 and fiscal year 2015. Sales taxes collected from the provision of prepared meals and beverages increased 7.5 percent in fiscal year 2016, a slight acceleration from the growth rate recorded in fiscal year 2015.

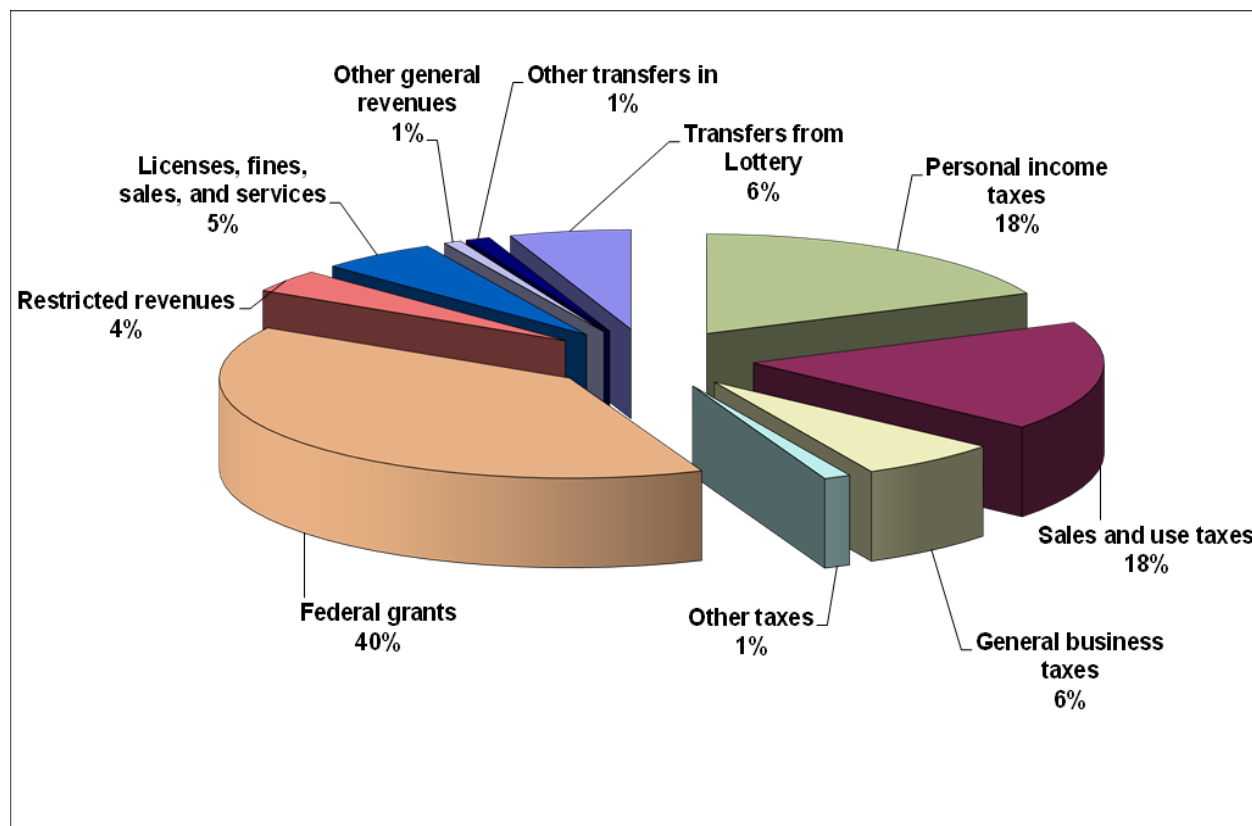
General business tax revenues fell by 1.5 percent in fiscal year 2016, driven primarily by a substantial decline in business corporation tax payments of 8.8 percent and financial institutions tax revenues of 7.2 percent. These declines were offset in part by a gain in insurance companies' gross premiums tax receipts of 8.4 percent, which was realized through an increase in tax revenues from property, casualty and life insurance premiums.

Other taxes increased by 82.0 percent over fiscal year 2016. Estate and transfer tax revenues increased by 104.7 percent from fiscal year 2015 levels, due overwhelmingly to the receipt of the two largest estate and transfer tax payments in state history in May and June 2016. Realty transfer taxes rose 9.9 percent from fiscal year 2015 levels, reflecting continued improvement in the state's housing market.

Finally, the R.I. Lottery's transfer to the General Fund was down 3.2 percent in fiscal year 2016 from fiscal year 2015. Sales of traditional lottery products were up 7.3 percent year-over-year, powered by the largest Powerball jackpot in history which surpassed \$1.0 billion in January 2016. This increase in the sales of traditional lottery products was offset by a decline in video lottery net terminal income revenues of 4.3 percent in fiscal year 2016 as Massachusetts opened its first gaming facility, a slots parlor in nearby Plainfield, MA in late June of 2015. Finally, net revenues from the operation of table games at Twin River increased by 22.3 percent in fiscal year 2016.

**Chart 4** depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2016.

**Chart 4 – Revenues and Other Sources – General Fund**



Expenditures and transfers out totaled \$6,598.1 million in fiscal year 2016, an increase of \$115.5 million, or 1.78%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):



	2016	2015	Increase (decrease) from 2015	
			Amount	Percent
General government	\$ 577,399	\$ 518,101	\$ 59,298	11.45%
Human services	3,694,123	3,661,964	32,159	0.88%
Education	1,467,236	1,403,507	63,729	4.54%
Public safety	504,217	490,981	13,236	2.70%
Natural resources	78,270	79,897	(1,627)	-2.04%
Debt Service:				
Principal	74,705	123,178	(48,473)	-39.35%
Interest	59,705	61,727	(2,022)	-3.28%
Total expenditures	6,455,655	6,339,355	116,300	1.83%
Transfers out	142,425	143,266	(841)	-0.59%
Total expenditures and transfers out	\$ 6,598,080	\$ 6,482,621	\$ 115,459	1.78%

The significant increase of over \$50.0 million in the General Government function is primarily attributable to the Governor's Economic Development Initiatives under the Executive Office of Commerce. These include the I-195 Redevelopment Fund, the Affordable Housing Fund, the First Wave Closing Fund, Small Business Assistance and the Rebuild RI Fund.

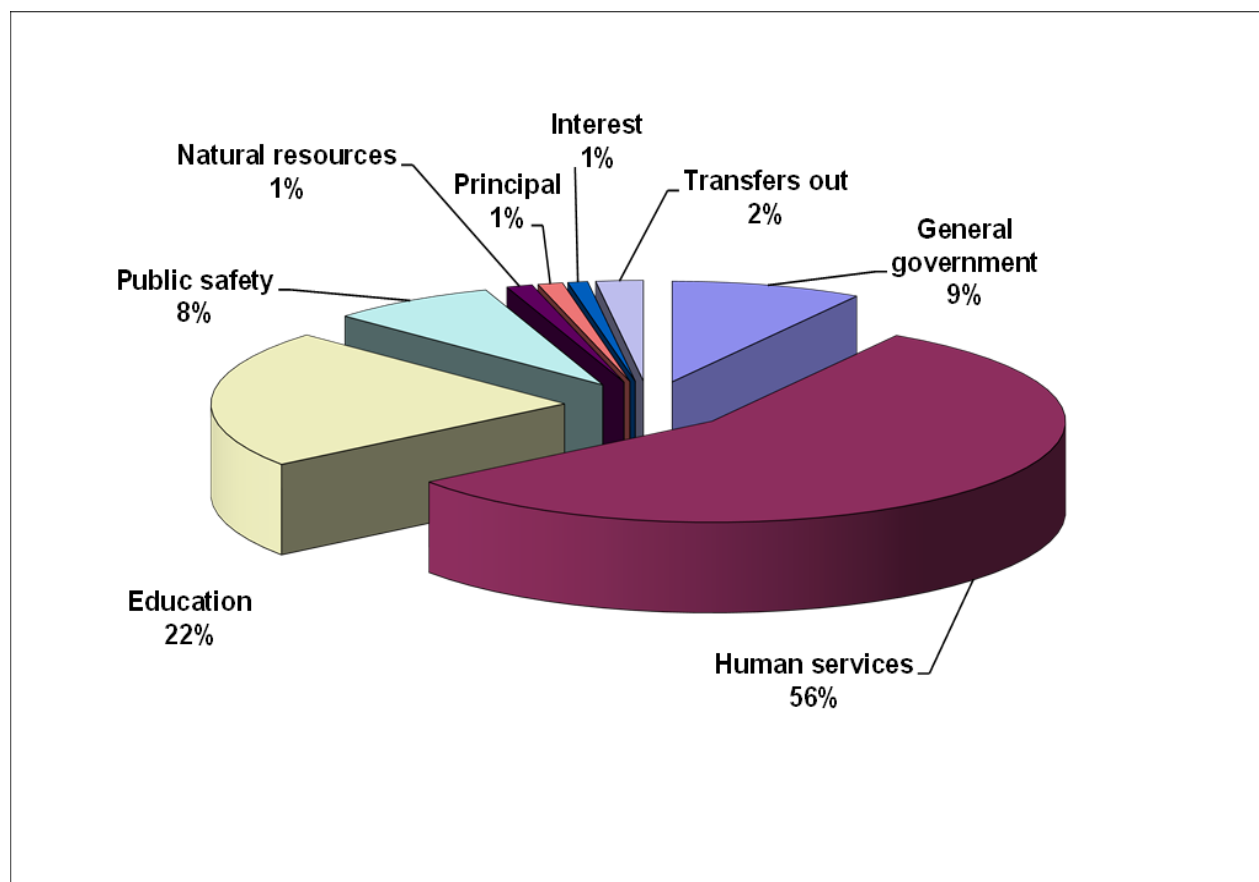
The increase of just over \$32.0 million in the Human Services function is primarily attributable to further increases in enrollment in the Medicaid program resulting from the Affordable Care Act (ACA). This is also coupled with growth in the regular Medicaid program due to caseload increases. The ACA related costs were still 100 percent federally funded in fiscal year 2016.

The primary driver of the increase in the Education function expenditures is the continued transition to the Education Funding Formula, which required over \$37.0 million in additional funding in fiscal year 2016. Also in this functional area, \$20.0 million was appropriated for the new School Building Authority Fund to be managed by the Rhode Island Health and Educational Building Corporation, a discretely presented component unit, which will provide loans and grants to school districts for improvements to school facilities. Finally, the fiscal year 2016 budget included an increase of over \$6.0 million in state support for the three institutions of higher education.

The large decline in debt service from fiscal year 2015 to fiscal year 2016 is the result of a restructuring of debt undertaken in July 2015 that freed up resources to be invested in economic development programs. This restructuring resulted in some immediate savings from reissuing debt at lower interest rates, but also deferred some debt service to later years.

Chart 5 depicts the General Fund's expenditures and other uses for the fiscal year ended June 30, 2016.

**Chart 5 – Expenditures and Other Uses – General Fund**



#### *Intermodal Surface Transportation Fund*

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, motor vehicle registration and licensing fees, federal grants, Rhode Island Capital Plan funds, and bond proceeds that are used for maintenance, upgrading, and construction of the State's surface transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of the fund balance of the IST fund are as follows (expressed in thousands):

	2016	2015*	Increase (decrease) from 2015	
			Change	Percent
Restricted	\$ 98,595	\$ 103,325	\$ (4,730)	-4.58%
Unrestricted				
Committed	39,063	10,637	28,426	267.24%
Unassigned (deficit)	(1,519)	(1,486)	(33)	-2.22%
Total	<u>\$ 136,139</u>	<u>\$ 112,476</u>	<u>\$ 23,663</u>	21.04%

\*- Reclassified to conform to current year presentation.

The net increase of \$28.4 million in the committed portion of the unrestricted fund balance primarily resulted from an increase of \$26.8 million in the RI Highway Maintenance Account. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.

### General Fund Budgetary Highlights – General Revenue Sources

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds 5% of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. The current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriation from the General Assembly, provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of \$91.3 million between the original budget and the final budget. General revenue appropriations increased from the original budget by \$20.6 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights General Revenue Sources				
	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and other sources:				
Taxes:				
Personal income	\$ 1,215,737	\$ 1,224,900	\$ 1,217,430	\$ (7,470)
General business	429,745	441,200	435,203	(5,997)
Sales and use	1,166,190	1,182,500	1,173,770	(8,730)
Other taxes	31,711	36,600	81,520	44,920
Departmental revenue	357,236	363,800	367,641	3,841
Other sources:				
Lottery transfer	331,740	370,100	369,761	(339)
Unclaimed property	10,000	12,100	14,167	2,067
Miscellaneous	1,397	3,829	4,102	273
Total revenues and other sources	3,543,756	3,635,029	3,663,594	28,565
Expenditures and other uses:				
General government	448,687	466,563	455,148	11,415
Human services	1,361,094	1,382,806	1,366,085	16,721
Education	1,268,225	1,251,331	1,249,882	1,449
Public safety	433,963	431,110	436,216	(5,106)
Natural resources	40,020	40,772	40,574	198
Total expenditures and other uses	3,551,989	3,572,582	3,547,905	24,677
Excess of revenues and other sources over expenditures and other uses	\$ (8,233)	\$ 62,447	\$ 115,689	\$ 53,242

The slight positive variance between the fiscal year 2016 actual revenues and the fiscal year 2016 original budget for personal income taxes was reflected in positive variances for the estimated payments,

final payments and refunds and adjustments components of the personal income tax and negative variances for withholding payments and the net accrual component of the personal income tax. Personal income tax estimated payments were \$8.1 million more than the original budget. Personal income tax final payments were \$6.4 million above the original budget, while personal income tax refunds and adjustments were \$21.9 million less than the original budget. Personal income tax withholding payments were nearly \$19.0 million less than the amount included in the original budget. The personal income tax net accrual was \$15.8 million less than in the original budget, as the revenue impact of several tax law changes that took effect on January 1, 2015 were accounted for in the net accrual, as were excess personal income tax refunds that were processed in July and August of 2016 that normally would have been paid during fiscal year 2016.

Actual fiscal year 2016 general business taxes came in \$5.5 million above the original budget due primarily to actual financial institutions and insurance companies gross premiums tax revenues coming in \$9.7 million higher than the estimated amount included in the original budget. These realized increases were offset by business corporation tax, public utilities gross earnings tax, and healthcare provider assessment revenues coming in \$4.8 million below their originally budgeted amounts.

Sales and use tax revenues actually received in fiscal year 2016 outperformed estimated sales and use tax revenues included in the fiscal year 2016 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues, general sales and use tax revenues and motor vehicle licenses and fees revenues exceeding the estimates included in the original budget.

Finally, the actual fiscal year 2016 Lottery transfer to the General Fund significantly outperformed the estimated Lottery transfer to the General Fund contained in the fiscal year 2016 original budget in the amount of \$38.0 million. This outperformance was due in large part to the fact that the onset of slots-only gaming in Massachusetts did not have as significant a negative impact on Rhode Island's full casino at Twin River and its slots-only facility at Newport Grand as was initially forecast.

The positive expenditure variance in the General Government function of approximately \$11.4 million was primarily in two agencies, Administration and Legislature. Within Administration, the majority of the positive variance, \$1.8 million, was in the Division of Capital Asset Maintenance and Management program due to lower than anticipated energy and repair costs. In addition, several programs had surpluses due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal year 2017. These included \$388,428 for a classification and compensation study and \$258,319 for building code training and code book publishing. In the Legislature's budget the positive variance was \$6.3 million. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal year 2017.

The positive variance in the Human Services function of approximately \$16.7 million was due to a positive variance of \$17.6 million in the Office of Health and Human Services (OHHS), offset by a deficit of \$922,000 in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH). The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2016. The BHDDH deficit was primarily in the Developmental Disabilities program due to certain savings initiatives not being achieved.

The positive variance in the Education function is almost entirely from the Department of Elementary and Secondary Education, due to lower than estimated expenditures for the state's share of Teachers' Retirement. Payments are based on actual teacher payrolls, which are difficult to estimate at the time of the budget submission.

The negative variance of \$5.1 million in Public Safety is almost entirely due to additional unbudgeted personnel costs resulting from an arbitration award to the RI Brotherhood of Correctional Officers.



## Capital Assets and Debt Administration

### Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to \$4,191.2 million, net of accumulated depreciation of \$2,829.1 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.66% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and bridges as well as other infrastructure and major software modernization initiatives.

Actual expenditures to purchase or construct capital assets were \$370.8 million for the year. Of this amount, \$182.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled \$186.5 million.

State of Rhode Island's Capital Assets as of June 30, 2016 and 2015  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Capital assets not being depreciated or amortized						
Land	\$ 393,739	\$ 392,753	\$ 46,808	\$ 46,808	\$ 440,547	\$ 439,561
Works of Art	3,449	2,923			3,449	2,923
Intangibles	171,992	170,130			171,992	170,130
Construction in progress*	648,279	513,518	293	178	648,572	513,696
Total capital assets not being depreciated or amortized	1,217,459	1,079,324	47,101	46,986	1,264,560	1,126,310
Capital assets being depreciated or amortized						
Land improvements	4,665	3,700			4,665	3,700
Buildings	724,551	721,971	234,384	234,384	958,935	956,355
Building improvements	372,596	279,919			372,596	279,919
Equipment	304,793	294,897	31,104	31,255	335,897	326,152
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure	4,069,394	3,954,550			4,069,394	3,954,550
	5,490,039	5,269,077	265,663	265,814	5,755,702	5,534,891
Less: Accumulated depreciation or amortization	2,662,630	2,498,285	166,460	158,231	2,829,090	2,656,516
Total capital assets being depreciated or amortized	2,827,409	2,770,792	99,203	107,583	2,926,612	2,878,375
Total capital assets (net)	\$ 4,044,868	\$ 3,850,116	\$ 146,304	\$ 154,569	\$ 4,191,172	\$ 4,004,685

\*Certain fiscal year 2015 balances have been restated.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

### Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50 thousand without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$2.1 billion, of which \$1,051.8 million is general obligation debt, \$391.3 million is special obligation debt and \$695.0 million is debt of the blended component units. Additionally, accreted interest of \$85.2 million has

been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt decreased by \$36.6 million during fiscal year 2016. This decrease consists of a \$28.9 million increase in general obligation debt, a decrease of \$44.3 million in special obligation debt, and a decrease of \$21.2 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaling \$316.3 million and \$979.3 million are supported by pledged revenue. These obligations are discussed in Notes 6 and 17 G.

In July 2015 the State issued \$175.2 million of general obligation refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2017 through 2028. These bonds, combined with the premium of \$23.8 million, were used to advance refund \$190.1 million of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding, which resulted in a reduction of debt service over the term of the bonds of \$7.4 million, was designed to take advantage of lower market interest rates. It also reconfigured debt service payments freeing up current resources for critical economic development initiatives.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor's Ratings Services (S&P), Aa2 (Stable) by Moody's Investor Service, Inc., and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2016 amounted to \$319.6 million; other obligations that are authorized but unissued totaled \$174.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

## Conditions Expected to Affect Future Operations

### **Fiscal Year 2017 Budget**

The first quarter report for fiscal year 2017 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2017, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2016 Caseload and Revenue Estimating Conferences. The fiscal year 2017 balance, based upon these assumptions, is estimated to reflect a \$58.7 million general revenue surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2017 expenditure plans in conjunction with the fiscal year 2018 budget process. In the first quarter report for fiscal year 2017 prepared by the State Budget Office, a number of departments, primarily in the human service area as well as the Department of Corrections, are projecting deficits. All changes recommended by the Governor in the fiscal year 2017 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in early 2017.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be \$44.9 million more than enacted for fiscal year 2017. Taxes are expected to exceed enacted estimates by \$41.5 million, while departmental revenues and other sources, including lottery revenues, are expected to exceed enacted estimates by \$3.3 million. The November Revenue Estimating Conference estimates that revenues will be \$3,719.6 million as compared with the enacted estimate of \$3,674.7 million for fiscal year 2017.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2017 enacted budget, increased general revenue funding for fiscal year 2017 of \$4.7 million. This is due to a number of factors, including increased costs for medical assistance programs which were offset to an extent by savings in other programs.

### **Lottery Revenue**

The General Fund derives more than 10% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

In November 2016 the voters of the state approved a referendum to allow the opening of a new casino/hotel in Tiverton near the Massachusetts border. This facility, which will replace the Newport Grand Casino, will be operated by the same company that operates the Twin River Casino in Lincoln.

### **Pension Benefits**

The State's financial statements include the net pension liability for the various defined benefit pension plans covering state employees and teachers. Please see Note 13 for information about each of the State's pension plans.

Legal challenges to pension reforms initiated in prior years have been largely resolved through settlement and legislative enactment of those settlement provisions at the close of fiscal 2015. The changes to benefit provisions resulting from the settlement and subsequent amendment of the statutory provisions regarding pension benefits have been reflected in the net pension liability as well as the actuarially determined contribution rates for fiscal year 2017. The terms of the settlement maintained the majority of the future savings projected in the initial enactment of the Rhode Island Retirement Security Act.

With the implementation of GASB Statement No. 68, the accounting measures of pension expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net pension liability reflects the fair value of pension plan assets at June 30 whereas the funding measures use a five-year smoothed actuarial value of assets.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future pension benefits and the accounting measures reflecting the changes in those pension liabilities year to year.

### **Other Postemployment Benefits (OPEB)**

Pursuant to legislation enacted by the General Assembly, the State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2015 has determined the State's net unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be \$644.3 million. Based on a discount rate of 5.0%, the State's and other participating employers' annual required contribution was \$53.4 million. For fiscal year 2016, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2016 the OPEB Trust's net position was \$179.3 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made

about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

In fiscal year 2018 the State will be implementing GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45 related to accounting for other post-employment benefit plans that are administered through trusts or equivalent arrangements. This Statement will require the State to restate opening net position as of July 1, 2017 to recognize its share of the net OPEB liability relating to the OPEB plans it administers. The restatement is expected to reduce net position of the primary government, but the amount of the restatement has not yet been determined.

### **Transportation Funding Initiative**

In order to address Rhode Island's continuing issues with deteriorating roads and bridges, in February 2016 a new initiative proposed by the Governor, called RhodeWorks, was enacted by the General Assembly. RhodeWorks calls for investing an additional \$1 billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan will be financed by 1) user fees on large commercial trucks, 2) \$300 million of new GARVEE debt that will be repaid with federal funds, and 3) \$129 million of federal funds made available sooner by restructuring existing federally-funded debt. The plan is expected to save nearly \$1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis.

### **Google Inc. Settlement**

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of \$500 million in revenue by Google. Because several State law enforcement agencies participated in the investigation, the State was awarded \$110 million of this forfeiture. As of June 30, 2016 the State had spent approximately \$31.2 million of the total award and will be able to use the balance of the award in future years. The funds must be utilized for public safety purposes.

In September 2016, pursuant to legislation enacted by the General Assembly, the State established a trust to fund and pay benefits that were earned under the provisions of the State Police Non-Contributory Retirement Plan discussed in Note 13. The State deposited \$15 million of the Google Inc. settlement funds into the newly established Trust.

### **Local Government Financial Matters**

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to implement three levels of oversight and control: fiscal overseer, budget commission, and state receiver.

The State has intervened in certain municipalities in recent years utilizing these powers. Most notably, the City of Central Falls was under the control of a State appointed receiver and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy.

A State fiscal overseer and a budget commission were appointed for the City of East Providence in 2011. In September 2013 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary. In addition, a budget commission was appointed for the City of Woonsocket in May 2012. In March 2015 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary.

During the 2014 legislative session, the General Assembly amended the Fiscal Stability Act to extend its provision to fiscally distressed fire districts. At that time, the Central Coventry Fire District was under judicial receivership and had been scheduled for liquidation. The State appointed a Receiver on May 6, 2014 and in December of that year, the Receiver filed for Chapter 9 bankruptcy. The receivership was terminated effective October 1, 2015. The Receiver filed a motion to dismiss the Chapter 9 petition which was granted by the U.S. Bankruptcy Court, effective October 1, 2015.

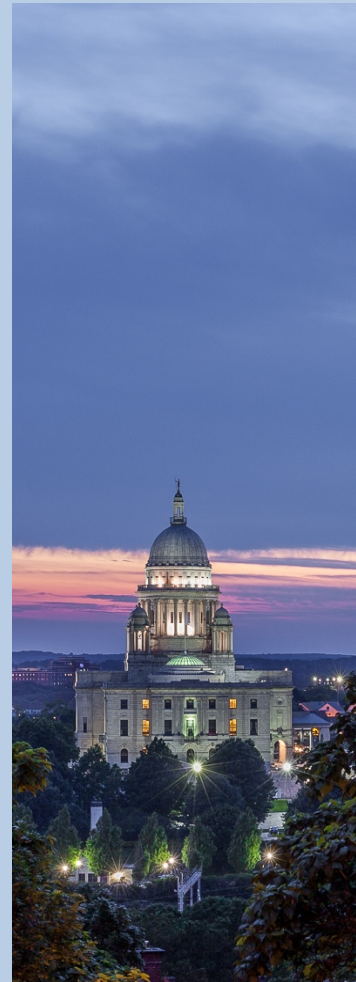
The State is continually monitoring the financial status of all municipalities and other local governmental entities with the goal of avoiding the need for more extensive intervention. These ongoing monitoring efforts specifically include the City of Providence which has a deficit reduction plan in place as approved by the Office of the Auditor General, and is challenged by significant unfunded pension and OPEB obligations.

## Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to [Jennifer.findlay@doa.ri.gov](mailto:Jennifer.findlay@doa.ri.gov). The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.admin.ri.gov/index.php>. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.



# **Basic Financial Statements**



**State of Rhode Island  
Fiscal Year Ended  
June 30, 2016**



**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**June 30, 2016**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
<b>Assets and deferred outflows of resources</b>				
Current assets:				
Cash and cash equivalents	\$ 1,001,740	\$ 28,364	\$ 1,030,104	\$ 331,187
Funds on deposit with fiscal agent	144,808	201,703	346,511	
Investments				10,108
Receivables (net)	777,802	87,035	864,837	102,480
Restricted assets:				
Cash and cash equivalents	52,235	2,241	54,476	531,475
Investments				128,547
Receivables (net)				70,143
Other assets				38,291
Due from primary government				58,098
Due from component units	4,222		4,222	343
Internal balances	2,128	(2,128)		
Due from other governments and agencies	143,868	1,362	145,230	4,013
Inventories	1,796	1,275	3,071	10,412
Other assets	6,501	534	7,035	7,391
Total current assets	2,135,100	320,386	2,455,486	1,292,488
Noncurrent assets:				
Investments				178,070
Receivables (net)	24,991		24,991	43,505
Due from other governments and agencies	11,026		11,026	
Restricted assets:				
Cash and cash equivalents				48,955
Investments				384,013
Other assets				2,459,314
Due from component units	47,375		47,375	1,478
Capital assets - nondepreciable	1,217,459	47,101	1,264,560	219,033
Capital assets - depreciable (net)	2,827,409	99,203	2,926,612	1,809,417
Other assets		701	701	157,913
Total noncurrent assets	4,128,260	147,005	4,275,265	5,301,698
Total assets	6,263,360	467,391	6,730,751	6,594,186
<b>Deferred outflows of resources</b>	340,857	6,230	347,087	54,282
<b>Liabilities and deferred inflows of resources</b>				
Current Liabilities:				
Accounts payable	682,634	17,644	700,278	106,173
Due to primary government				4,222
Due to component units	58,098		58,098	343
Due to other governments and agencies		1,555	1,555	
Accrued expenses		6,524	6,524	
Unearned revenue	107,120		107,120	29,225
Other current liabilities	129,295	400	129,695	222,952
Current portion of long-term debt	189,816	16,506	206,322	214,397
Obligation for unpaid prize awards		7,308	7,308	
Total current liabilities	1,166,963	49,937	1,216,900	577,312
Noncurrent Liabilities:				
Due to primary government				47,375
Net pension liability	2,113,105	15,074	2,128,179	271,402
Net pension liability-special funding situation	1,117,395		1,117,395	
Net OPEB obligation	8,503		8,503	68,322
Unearned revenue		4,353	4,353	14,268
Due to component units				1,478
Notes payable				34,604
Loans payable				45,642
Obligations under capital leases	203,114		203,114	3,936
Compensated absences	6,632	332	6,964	21,035
Bonds payable	2,320,226	197,187	2,517,413	2,738,340
Other liabilities	53,793		53,793	359,346
Total noncurrent liabilities	5,822,768	216,946	6,039,714	3,605,748
Total liabilities	6,989,731	266,883	7,256,614	4,183,060
<b>Deferred inflows of resources</b>	115,200	300	115,500	12,080
<b>Net position (deficit)</b>				
Net investment in capital assets	3,063,627	(57,493)	3,006,134	1,439,854
Restricted for:				
Capital Projects	146,841		146,841	
Debt	100,429	2,241	102,670	252,100
Assistance to other entities	64,070		64,070	
Employment insurance programs	152,285	281,660	433,945	
Other	278,172		278,172	737,779
Nonexpendable	174		174	127,710
Unrestricted	(4,306,312)	(19,970)	(4,326,282)	(104,115)
Total net position (deficit)	\$ (500,714)	\$ 206,438	\$ (294,276)	\$ 2,453,328

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations  
Statement of Activities  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component Units
					Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 769,469	\$ 229,659	\$ 85,197	\$ 369	\$ (454,244)	\$	\$ (454,244)	\$
Human services	3,652,875	266,091	2,251,782	1,019	(1,133,983)		(1,133,983)	
Education	1,595,289	29,749	197,798	427	(1,367,315)		(1,367,315)	
Public safety	545,329	45,245	39,800	3,137	(457,147)		(457,147)	
Natural resources	87,537	28,655	18,617	4,411	(35,854)		(35,854)	
Transportation	343,270	25,354	84,237	169,265	(64,414)		(64,414)	
Interest and other charges	83,899				(83,899)		(83,899)	
Total governmental activities	7,077,668	624,753	2,677,431	178,628	(3,596,856)		(3,596,856)	
Business-type activities:								
State Lottery	507,199	875,362				368,163	368,163	
Convention Center	48,905	28,081				(20,824)	(20,824)	
Employment security	157,018	273,640	1,558			118,180	118,180	
Total business-type activities	713,122	1,177,083	1,558			465,519	465,519	
Total primary government	\$ 7,790,790	\$ 1,801,836	\$ 2,678,989	\$ 178,628	(3,596,856)	465,519	(3,131,337)	
<b>Component units:</b>	\$ 1,379,259	\$ 733,555	\$ 538,227	\$ 165,735				58,258
<b>General Revenues:</b>								
Taxes:								
Personal income					1,211,419		1,211,419	
General business					428,418		428,418	
Sales and use					1,173,905		1,173,905	
Gasoline					152,122		152,122	
Other					300,483		300,483	
Interest and investment earnings					3,134	164	3,298	43,174
Miscellaneous revenue					90,836	4,106	94,942	53,747
Gain on sale of capital assets					4,693		4,693	
<b>Special items</b>								38,348
<b>Transfers (net)</b>					335,765	(335,765)		
Total general revenues and transfers					3,700,775	(331,495)	3,369,280	135,269
Change in net position					103,919	134,024	237,943	193,527
<b>Net position (deficit) - beginning as restated</b>					(604,633)	72,414	(532,219)	2,259,801
<b>Net position (deficit) - ending</b>					\$ (500,714)	\$ 206,438	\$ (294,276)	\$ 2,453,328

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 654,828	\$ 60,631	\$ 252,970	\$ 968,429
Funds on deposit with fiscal agent		67,684	77,123	144,807
Restricted cash equivalents			52,241	52,241
Receivables (net)	698,438	15,783	72,294	786,515
Due from other funds	4,054	941	390	5,385
Due from other governments and agencies	107,606	44,256		151,862
Loans to other funds	5,918		108,813	114,731
Other assets	505			505
<b>Total assets</b>	<b>\$ 1,471,349</b>	<b>\$ 189,295</b>	<b>\$ 563,831</b>	<b>\$ 2,224,475</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	596,206	27,092	20,662	643,960
Due to other funds			2,340	2,340
Due to component units	37,441	7,338	23,908	68,687
Loans from other funds	108,813		8	108,821
Unearned revenue	98,763			98,763
Other liabilities	99,228	10,264	535	110,027
<b>Total liabilities</b>	<b>940,451</b>	<b>44,694</b>	<b>47,453</b>	<b>1,032,598</b>
<b>Deferred inflows of resources</b>	<b>21,520</b>	<b>8,462</b>		<b>29,982</b>
<b>Fund Balances</b>				
Nonspendable			174	174
Restricted	133,193	98,595	516,092	747,880
Unrestricted				
Committed	3,975	39,063	112	43,150
Assigned	137,114			137,114
Unassigned	235,096	(1,519)		233,577
<b>Total fund balances</b>	<b>509,378</b>	<b>136,139</b>	<b>516,378</b>	<b>1,161,895</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,471,349</b>	<b>\$ 189,295</b>	<b>\$ 563,831</b>	<b>\$ 2,224,475</b>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Balance Sheet of the Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2016**  
**(Expressed in Thousands)**

Fund balance - total governmental funds	\$	1,161,895
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	6,700,929	
Accumulated depreciation	(2,658,729)	
		4,042,200

Deferred outflows of resources		340,857
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Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.

Compensated absences	(73,396)	
Bonds payable	(2,223,320)	
Net premium/discount	(187,141)	
Obligations under capital leases	(214,321)	
Premium	(16,769)	
Interest payable	(21,115)	
Net pension liabilities	(3,230,500)	
Other liabilities	(67,945)	
		(6,034,507)

Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Receivables	5,674	
Due from component units	51,597	
Unavailable revenue	21,624	
		78,895

Deferred inflows of resources		(115,200)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities.

		25,146
Net position - total governmental activities	\$	(500,714)

The notes to the financial statements are an integral part of this statement.



**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ 2,895,540	\$ 184,793	\$ 186,283	\$ 3,266,616
Licenses, fines, sales, and services	355,731	22,444	2,201	380,376
Departmental restricted revenue	241,872	2,882		244,754
Federal grants	2,610,735	254,271		2,865,006
Income from investments	1,516	487	1,014	3,017
Other revenues	51,185	1,699	47,472	100,356
Total revenues	6,156,579	466,576	236,970	6,860,125
<b>Expenditures:</b>				
Current:				
General government	577,399		186,667	764,066
Human services	3,694,123			3,694,123
Education	1,467,236			1,467,236
Public safety	504,217			504,217
Natural resources	78,270		37	78,307
Transportation		385,174	1,538	386,712
Capital outlays			185,361	185,361
Debt service:				
Principal	74,705	4,375	24,230	103,310
Interest and other charges	59,705	10,680	29,417	99,802
Total expenditures	6,455,655	400,229	427,250	7,283,134
Excess (deficiency) of revenues over (under) expenditures	(299,076)	66,347	(190,280)	(423,009)
<b>Other financing sources (uses):</b>				
Issuance of bonds and notes			72,000	72,000
Issuance of refunding bonds		230,280	228,955	459,235
Capital leases	5,021			5,021
Premiums		38,619	34,897	73,516
Transfers in	443,971	15,400	113,198	572,569
Payment to refunded bonds escrow agent		(267,327)	(265,453)	(532,780)
Transfers out	(142,425)	(59,656)	(34,723)	(236,804)
Total other financing sources (uses)	306,567	(42,684)	148,874	412,757
Net change in fund balances	7,491	23,663	(41,406)	(10,252)
Fund balances - beginning	501,887	112,476	557,784	1,172,147
Fund balances - ending	\$ 509,378	\$ 136,139	\$ 516,378	\$ 1,161,895

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of the Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

Net change in fund balances - total governmental funds \$ (10,252)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.

Capital outlay	378,935	
Depreciation expense	(175,778)	
	203,157	

Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal paid on debt	103,310	
Debt redeemed and defeased in refunding	493,430	
Accrued interest and other charges	(1,435)	
Proceeds from sale of debt	(531,235)	
Deferral of premium/discount	(73,516)	
Amortization of premium/discount	29,926	
Accreted interest paid	(11,845)	
Deferral of refunding gains/losses	21,416	
Amortization of refunding gains/losses	14,269	
	44,320	

Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.

Compensated absences	2,340	
Pension expenses, net of related deferred outflows	(127,088)	
Program expenses	11,766	
Program revenue	(364)	
Capital grant revenue	(593)	
General revenue - taxes	(268)	
General revenue-miscellaneous	(14,537)	
	(128,744)	

Internal service funds are used by management to charge the costs of certain activities to individual funds.

The change in net position of the internal service funds is reported with governmental activities. (4,562)

Change in net position - total governmental activities	\$ 103,919
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The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations  
Statement of Net Position  
Proprietary Funds  
June 30, 2016  
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Assets and deferred outflows of resources</b>					
Current assets:					
Cash and cash equivalents	\$ 20,965	\$ 6,332	\$ 1,067	\$ 28,364	\$ 33,304
Restricted cash and cash equivalents		2,241		2,241	
Funds on deposit with fiscal agent			201,703	201,703	
Receivables (net)	5,501	1,311	80,223	87,035	13,636
Due from other funds	444	269		713	1,023
Due from other governments and agencies			1,362	1,362	
Inventories	1,275			1,275	1,796
Other assets	42	492		534	5,996
Total current assets	28,227	10,645	284,355	323,227	55,755
Noncurrent assets:					
Capital assets - nondepreciable		47,101		47,101	
Capital assets - depreciable (net)	368	98,835		99,203	2,668
Other assets		701		701	
Total noncurrent assets	368	146,637		147,005	2,668
Total assets	28,595	157,282	284,355	470,232	58,423
<b>Deferred outflows of resources</b>	1,399	4,831		6,230	
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	12,124	5,516	4	17,644	22,432
Due to other funds	1,679	172	990	2,841	1,940
Due to other governments and agencies			1,555	1,555	
Loans from other funds					5,910
Accrued expenses	6,524			6,524	
Unearned revenue	625	4,208		4,833	
Other current liabilities	395		5	400	2,995
Bonds payable		11,440		11,440	
Compensated absences	233			233	
Obligation for unpaid prize awards	7,308			7,308	
Total current liabilities	28,888	21,336	2,554	52,778	33,277
Noncurrent liabilities:					
Net pension liability	15,074			15,074	
Unearned revenue	3,750	462	141	4,353	
Bonds payable		197,187		197,187	
Compensated absences	332			332	
Total noncurrent liabilities	19,156	197,649	141	216,946	
Total liabilities	48,044	218,985	2,695	269,724	33,277
<b>Deferred inflows of resources</b>	300			300	
<b>Net Position (Deficit)</b>					
Net investment in capital assets	368	(57,861)		(57,493)	2,668
Restricted for:					
Debt		2,241		2,241	
Employment insurance programs			281,660	281,660	
Unrestricted	(18,718)	(1,252)		(19,970)	22,478
Total net position (deficit)	\$ (18,350)	\$ (56,872)	\$ 281,660	\$ 206,438	\$ 25,146

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Business-type Activities-- Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>R.I. State Lottery</b>	<b>R.I. Convention Center</b>	<b>Employment Security</b>	<b>Totals</b>	<b>Internal Service Funds</b>
<b>Operating revenues:</b>					
Charges for services	\$	\$ 27,781	\$ 269,159	\$ 296,940	\$ 314,894
Lottery sales	260,833			260,833	
Video lottery, net	488,691			488,691	
Table games	125,838			125,838	
Federal grants			1,558	1,558	
Miscellaneous		300	4,481	4,781	
Total operating revenues	875,362	28,081	275,198	1,178,641	314,894
<b>Operating expenses:</b>					
Personal services	10,301	15,673		25,974	13,417
Supplies, materials, and services	337,408	12,560		349,968	306,007
Prize awards, net of prize recoveries	159,379			159,379	
Depreciation and amortization	111	10,423		10,534	169
Benefits paid			157,018	157,018	
Total operating expenses	507,199	38,656	157,018	702,873	319,593
<b>Operating income (loss)</b>	368,163	(10,575)	118,180	475,768	(4,699)
<b>Nonoperating revenues (expenses):</b>					
Interest revenue	163	1		164	117
Other nonoperating revenue	939		3,167	4,106	20
Interest expense		(10,249)		(10,249)	
Total nonoperating revenue (expenses)	1,102	(10,248)	3,167	(5,979)	137
Income (loss) before transfers	369,265	(20,823)	121,347	469,789	(4,562)
<b>Transfers in</b>	444	24,209	9,449	34,102	
<b>Transfers out</b>	(369,761)		(106)	(369,867)	
Change in net position	(52)	3,386	130,690	134,024	(4,562)
<b>Net position (deficit) - beginning</b>	(18,298)	(60,258)	150,970	72,414	29,708
<b>Net position (deficit) - ending</b>	<u>\$ (18,350)</u>	<u>\$ (56,872)</u>	<u>\$ 281,660</u>	<u>\$ 206,438</u>	<u>\$ 25,146</u>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Internal Service Funds
<b>Cash flows from operating activities:</b>				
Cash received from gaming activities	\$ 875,903	\$	\$	\$ 875,903
Cash received from customers		29,439	267,593	297,032
Cash received from grants			1,558	1,558
Cash payments for gaming activities	(491,121)			(491,121)
Cash payments to suppliers	(4,718)	(12,879)		(17,597)
Cash payments to employees	(9,544)	(15,269)		(24,813)
Cash payments for benefits			(148,783)	(148,783)
Other operating revenue (expense)			65	65
Net cash provided by (used for) operating activities	370,520	1,291	120,433	492,244
<b>Cash flows from noncapital financing activities:</b>				
Payment of interest on loan from federal government			(34)	(34)
Loans from other funds				9,563
Loans to other funds				(10,837)
Repayment of loans to other funds				11,310
Repayment of loans from other funds				(10,125)
Transfers in		24,177	10,490	34,667
Transfers out	(369,414)		(148)	(369,562)
Net transfers from (to) fiscal agent			(130,483)	(130,483)
Net cash provided by (used for) noncapital financing activities	(369,414)	24,177	(120,175)	(465,412)
<b>Cash flows from capital and related financing activities:</b>				
Principal paid on capital obligations		(11,332)		(11,332)
Interest paid on capital obligations		(11,709)		(11,709)
Acquisition of capital assets	(24)	(1,981)		(2,005)
Net cash provided by (used for) capital and related financing activities	(24)	(25,022)		(49)
<b>Cash flows from investing activities:</b>				
Interest on investments	163	1		164
Net cash provided by investing activities	163	1		164
Net increase (decrease) in cash and cash equivalents	1,245	447	258	1,950
Cash and cash equivalents, July 1	19,720	8,126	809	28,655
Cash and cash equivalents, June 30	\$ 20,965	\$ 8,573	\$ 1,067	\$ 30,605
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	368,163	(10,575)	118,180	475,768
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>				
Depreciation and amortization	111	10,423		10,534
Other revenue (expense) and transfers in (out)	313		65	378
Net changes in assets and liabilities:				
Receivables, net	(78)	(483)	(1,474)	(2,035)
Operating revenue deposited directly with the fiscal agent			3,662	3,662
Inventory	(363)			(363)
Deferred outflows of resources	(216)			(216)
Prepaid items		56		56
Due to / due from transactions	(61)			(61)
Accounts and other payables	(2,139)	29		(2,110)
Accrued expenses	2,083			2,083
Net pension liability	1,758			1,758
Deferred inflows of resources	(866)			(866)
Unearned revenue	87	1,841		1,928
Prize awards payable	1,728			1,728
Total adjustments	2,357	11,866	2,253	16,476
Net cash provided by (used for) operating activities	\$ 370,520	\$ 1,291	\$ 120,433	\$ 492,244

The notes to the financial statements are an integral part of this statement.



**State of Rhode Island and Providence Plantations**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Trusts</b>	<b>Agency Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 9,846	\$	\$	\$ 14,882
Deposits held as security for entities doing business in the State				57,212
Advance held by claims processing agent	775			
Receivables				
Contributions	65,358			
Plan participant units sold			9,125	
Due from State for teachers	23,190			
Due from other plans	30			
Other	2,394			
Miscellaneous	199		2,314	2,939
Total receivables	91,171		11,439	2,939
Prepaid expenses	5,611			
Investments, at fair value				
Equity in short-term investment fund		1,869		
Equity in pooled trust	7,703,467			
Other investments	516,133		6,696,027	
Total investments	8,219,600	1,869	6,696,027	
Total assets	8,327,003	1,869	6,707,466	\$ 75,033
<b>Liabilities</b>				
Accounts payable	6,188		17,398	3,176
Due to other plans	30			
Incurred but not reported claims	1,614			
Due to other funds	2,249			
Deposits held for others				71,857
Total liabilities	10,081		17,398	\$ 75,033
<b>Net position</b>				
Restricted for:				
Pension benefits	8,136,796			
Other postemployment benefits	180,126			
Pool participants		1,869		
Tuition savings program			6,687,526	
Other			2,542	
Total net position	\$ 8,316,922	\$ 1,869	\$ 6,690,068	

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Trusts</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 204,205	\$	\$
Employer contributions	430,987		
Supplemental employer contributions	408		
State contributions for teachers	87,998		
Interest on service credits purchased	145		
Service credit transfer payments	13,406		
From program participants		41	765,916
Total contributions	<u>737,149</u>	<u>41</u>	<u>765,916</u>
Other income	<u>1,807</u>		
Investment income			
Net appreciation (depreciation) in fair value of investments	(69,096)		(295,110)
Interest	59,174	9	
Dividends	23,249		214,370
Other investment income	10,996		145
	<u>24,323</u>	<u>9</u>	<u>(80,595)</u>
Less: investment expense	20,220	2	
Net investment income	<u>4,103</u>	<u>7</u>	<u>(80,595)</u>
Total additions	<u>743,059</u>	<u>48</u>	<u>685,321</u>
<b>Deductions</b>			
Retirement benefits	928,232		
Death benefits	3,482		
Distributions	9,225	1,738	
Program participant redemptions			1,351,248
Refund of contributions	8,046		
Administrative expense	8,738		63,975
Service credit transfers	13,406		
OPEB benefits	38,519		
Total deductions	<u>1,009,648</u>	<u>1,738</u>	<u>1,415,223</u>
Change in net position:			
Pension benefits	(299,329)		
Other postemployment benefits	32,740		
Tuition Savings Program			(729,789)
Other		(1,690)	(113)
<b>Fiduciary net position - beginning, as restated</b>	<u>8,583,511</u>	<u>3,559</u>	<u>7,419,970</u>
<b>Fiduciary net position - ending</b>	<u><u>\$ 8,316,922</u></u>	<u><u>\$ 1,869</u></u>	<u><u>\$ 6,690,068</u></u>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2016**  
**(Expressed in Thousands)**

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 30,675	\$ 5,968	\$ 187	\$ 4,055	\$ 13,198
Investments				215	
Receivables (net)	18,798	1,776		1,166	51
Restricted assets:					
Cash and cash equivalents	24,038	34,845	56		12,126
Investments	3,939	3,507			27,524
Receivables (net)	1,348	523			786
Other assets	44				
Due from primary government	299	1,363	25,056	6,745	1,508
Due from other governments			18	2,728	
Due from other component units		26			
Inventories				1,578	64
Other assets	533	262	46	461	114
Total current assets	79,674	48,270	25,363	16,948	55,371
Noncurrent Assets:					
Investments		1,038		1,005	7,458
Receivables (net)	490	5,652			
Restricted assets:					
Cash and cash equivalents	33,932	9,455			
Investments	2,263	18,999			64,088
Receivables (net)		302			
Other assets					
Capital assets - nondepreciable	62,378	129		12,592	757
Capital assets - depreciable (net)	494,902	103		131,767	194,917
Due from other component units					
Other assets, net of amortization	890		287		
Total noncurrent assets	594,855	35,678	287	145,364	267,220
Total assets	674,529	83,948	25,650	162,312	322,591
<b>Deferred outflows of resources</b>	1,916	512		16,446	
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	7,399	407	109	6,322	12,329
Due to primary government				539	
Due to other component units	235				
Unearned revenue	443	4,780	56	179	
Other liabilities	12,476	1,635	151	6,659	4,373
Current portion of long-term debt	15,512	2,560			4,810
Total current liabilities	36,065	9,382	316	13,699	21,512
Noncurrent liabilities:					
Due to primary government	390			13,108	
Due to other component units	1,478				
Unearned revenue		14,038			
Notes payable					
Loans payable	41,541				
Obligations under capital leases					
Net pension liability	2,226	273		52,200	
Net OPEB obligation				55,534	
Other liabilities		26,733		11,169	
Compensated absences				365	
Bonds payable	255,994	21,584	38,400		184,292
Total noncurrent liabilities	301,629	62,628	38,400	132,376	184,292
Total liabilities	337,694	72,010	38,716	146,075	205,804
<b>Deferred inflows of resources</b>	44	380		1,793	30
<b>Net position (deficit)</b>					
Net investment in capital assets	260,203	232		130,712	195,424
Restricted for:					
Debt					41,944
Other	39,120		25,000		
Other nonexpendable		20,733			
Unrestricted	39,384	(8,895)	(38,066)	(99,822)	(120,611)
Total net position (deficit)	\$ 338,707	\$ 12,070	\$ (13,066)	\$ 30,890	\$ 116,757

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2016**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 141,946	\$ 30,704	\$ 20,920	\$ 83,534	\$ 331,187
Investments				9,893	10,108
Receivables (net)	49,999	5,772	2,043	22,875	102,480
Restricted assets:					
Cash and cash equivalents				460,410	531,475
Investments				93,577	128,547
Receivables (net)				67,486	70,143
Other assets				38,247	38,291
Due from primary government	4,761	10,621	1,524	6,221	58,098
Due from other governments			648	619	4,013
Due from other component units				317	343
Inventories	4,010	262	895	3,603	10,412
Other assets	1,340	35	179	4,421	7,391
Total current assets	202,056	47,394	26,209	791,203	1,292,488
Noncurrent Assets:					
Investments	138,705	26,454	3,170	240	178,070
Receivables (net)	21,102	3,747	10	12,504	43,505
Restricted assets:					
Cash and cash equivalents	1,750	714		3,104	48,955
Investments				298,663	384,013
Receivables (net)				1,046,128	1,046,430
Other assets	16,907	1,182		1,394,795	1,412,884
Capital assets - nondepreciable	18,695	24,853	7,249	92,380	219,033
Capital assets - depreciable (net)	633,816	119,420	75,390	159,102	1,809,417
Due from other component units				1,478	1,478
Other assets, net of amortization	1,859	7		154,870	157,913
Total noncurrent assets	832,834	176,377	85,819	3,163,264	5,301,698
Total assets	1,034,890	223,771	112,028	3,954,467	6,594,186
<b>Deferred outflows of resources</b>	10,153	3,243	2,307	19,705	54,282
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	47,251	12,044	4,468	15,844	106,173
Due to primary government	1,970	1,033	680		4,222
Due to other component units				108	343
Unearned revenue	16,511	3,410	2,433	1,413	29,225
Other liabilities	4,239	5,533	5,673	182,213	222,952
Current portion of long-term debt	10,647	949	266	179,653	214,397
Total current liabilities	80,618	22,969	13,520	379,231	577,312
Noncurrent liabilities:					
Due to primary government	11,780	19,142	2,955		47,375
Due to other component units					1,478
Unearned revenue				230	14,268
Notes payable		1,010		33,594	34,604
Loans payable	579			3,522	45,642
Obligations under capital leases	3,538			398	3,936
Net pension liability	113,016	39,783	29,073	34,831	271,402
Net OPEB obligation				12,788	68,322
Other liabilities	11,819	4,415	10	305,200	359,346
Compensated absences	17,082	1,230	84	2,274	21,035
Bonds payable	206,490	16,580	2,082	2,012,918	2,738,340
Total noncurrent liabilities	364,304	82,160	34,204	2,405,755	3,605,748
Total liabilities	444,922	105,129	47,724	2,784,986	4,183,060
<b>Deferred inflows of resources</b>	2,251	792	705	6,085	12,080
<b>Net position (deficit)</b>					
Net investment in capital assets	433,219	113,032	76,655	230,377	1,439,854
Restricted for:					
Debt				210,156	252,100
Other	74,859	5,904	1,216	591,680	737,779
Other nonexpendable	87,264	17,509	2,204		127,710
Unrestricted	2,528	(15,352)	(14,169)	150,888	(104,115)
Total net position (deficit)	\$ 597,870	\$ 121,093	\$ 65,906	\$ 1,183,101	\$ 2,453,328

(Concluded)

State of Rhode Island and Providence Plantations  
Combining Statement of Activities  
Component Units  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
<b>Expenses</b>	\$ 86,991	\$ 57,641	\$ 1,811	\$ 120,490	\$ 27,739	\$ 513,536	\$ 148,624	\$ 121,482	\$ 300,945	\$ 1,379,259
<b>Program revenues:</b>										
Charges for services	70,718	4,115	83	22,692	20,872	325,226	71,659	36,220	181,970	733,555
Operating grants and contributions		3,404	26,709	76,102		164,751	73,494	83,989	109,778	538,227
Capital grants and contributions	27,434			13,136	15,701	46,471	17,158	3,359	42,476	165,735
Total program revenues	98,152	7,519	26,792	111,930	36,573	536,448	162,311	123,568	334,224	1,437,517
Net (Expenses) Revenues	11,161	(50,122)	24,981	(8,560)	8,834	22,912	13,687	2,086	33,279	58,258
<b>General revenues:</b>										
Interest and investment earnings	241	7,703		18	697	(5,370)	(434)	51	40,268	43,174
Miscellaneous revenue	(21)	50,693		391	141	(1,578)	452		3,669	53,747
Total general revenue	220	58,396		409	838	(6,948)	18	51	43,937	96,921
<b>Special items</b>									38,348	38,348
Change in net position	11,381	8,274	24,981	(8,151)	9,672	15,964	13,705	2,137	115,564	193,527
<b>Net position (deficit) - beginning as restated</b>	327,326	3,796	(38,047)	39,041	107,085	581,906	107,388	63,769	1,067,537	2,259,801
<b>Net position (deficit) - ending</b>	<u>\$ 338,707</u>	<u>\$ 12,070</u>	<u>\$ (13,066)</u>	<u>\$ 30,890</u>	<u>\$ 116,757</u>	<u>\$ 597,870</u>	<u>\$ 121,093</u>	<u>\$ 65,906</u>	<u>\$ 1,183,101</u>	<u>\$ 2,453,328</u>

The notes to the financial statements are an integral part of this statement.

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## Note 1. Summary of Significant Accounting Policies

### A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB defines component units as legally separate organizations for which the elected officials of the primary government (such as the State) are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the State are such that exclusion from the State's financial statements would cause the statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

In accordance with GAAP, entities such as local school districts, charter schools, and other local authorities that may only partially meet the criteria for inclusion in this report have not been included. The State's financial support for the public education system is reported in the General Fund.

#### Blended Component Units

A component unit is reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it; or
- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or
- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

For each blended component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. Also, for the blended component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards.

The following component units are reported as part of the primary government in both the fund and government-wide financial statements.

*Rhode Island Convention Center Authority (RICCA)*

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903 or at [www.riconvention.com](http://www.riconvention.com).

*Tobacco Settlement Financing Corporation (TSFC)*

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose.

The Corporation recognizes receivables and revenue with respect to Tobacco Settlement Revenues (TSRs) based on the domestic shipment of cigarettes. The Corporation accrues at June 30th for TSRs that are derived from estimated sales of cigarettes from January 1 to June 30. This accrual is estimated based upon the historical TSR payments for the prior three fiscal years.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the Statement), effective for financial statement periods beginning on or after December 15, 2006. The Statement required restatement of prior period financial statements, except for the deferral requirements relative to sales of future revenues which were permitted to be applied prospectively.

As allowed under GASB Statement No. 48, the Corporation and the State elected to not retroactively apply the deferral requirements to its 2002 and 2007 TSR sales completed prior to the effective date. In accordance with accounting standards in effect at the time of the 2002 and 2007 TSR sales, the State fully recognized the amount received for its sale of future TSRs to the TSFC as revenue in those years.

For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

*Rhode Island Public Rail Corporation (RIPRC)*

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing RIPRC for all costs associated with the purchase of such insurance coverage. RIPRC provides services exclusively to the State. Separately issued financial statements are not available for RIPRC.

**Discretely Presented Component Units**

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading.

For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant

transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

### ***Major Component Units***

#### ***Rhode Island Airport Corporation (RIAC)***

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. RIAC leases the land on which the State's largest airport is located from the State and reimburses the State annually for general obligation proceeds utilized for certain airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at [www.pvdairport.com](http://www.pvdairport.com).

#### ***Rhode Island Commerce Corporation (RICC)***

This corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. Until June 30, 2013 the corporation was known as the R.I. Economic Development Corporation. RICC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. RICC's activities are largely supported by State appropriations and RICC has used its debt issuance authority to finance various economic development initiatives on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

#### ***I-195 Redevelopment District Commission (I-195 RDC)***

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. The I-195 RDC issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State appropriates amounts to the I-195 RDC for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R. I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.195district.com](http://www.195district.com).

#### ***Rhode Island Public Transit Authority (RIPTA)***

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue, a portion of the tax on gasoline and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the State as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at [www.ripta.com](http://www.ripta.com).

#### ***Rhode Island Turnpike and Bridge Authority (RITBA)***

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. RITBA is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital



assets of RITBA. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at [www.ritba.org](http://www.ritba.org).

#### *University and Colleges*

The Board of Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The university and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805. The financial statements can also be viewed at [www.riopc.edu](http://www.riopc.edu).

#### **Nonmajor Component Units**

##### *Central Falls School District*

The Central Falls School District (the District) is governed by a seven member board of trustees that is appointed by the State's Board of Education (Board). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State assumed responsibility for the administration and operational funding of the District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the District in a manner consistent with most local school committees. In addition, the Commissioner of Elementary and Secondary Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

##### *Division of Higher Education Assistance (DHEA)*

DHEA was established on July 1, 2015 by an Act of the Rhode Island General Assembly for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law to the Division. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Boulevard, Warwick, RI 02886, or at [www.riopc.edu](http://www.riopc.edu).

##### *Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)*

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. Certain debt issued by RIHMFC is secured in part by capital reserve funds. The General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at [www.rhodeislandhousing.org](http://www.rhodeislandhousing.org).

##### *Rhode Island Industrial Facilities Corporation (RIIFC)*

The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and, accordingly, have not been reported in the accompanying financial statements. Certain obligations of RIIFC are secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority for which the State's full faith and credit is pledged. For more detailed information, a copy of the financial statements can

be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

*Rhode Island Industrial-Recreational Building Authority (RIIRBA)*

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. RIIRBA's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

*Rhode Island Resource Recovery Corporation (RIRRC)*

This corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. The State is one of several potentially responsible parties for the costs of remedial actions at RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at [www.rirrc.org](http://www.rirrc.org).

*Quonset Development Corporation (QDC)*

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at [www.quonset.com](http://www.quonset.com).

*The Metropolitan Regional Career and Technical Center*

The Metropolitan Regional Career and Technical Center (The Met) is a state funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 900 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

*Rhode Island Infrastructure Bank (RIIB)*

This agency was established in 1991 as the R.I. Clean Water Finance Agency for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RIIB receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. In conjunction with the creation of the Municipal Road and Bridge Revolving Fund (MRBRF) which was established to provide municipalities with low-cost financial assistance for road and bridge projects the name of the Rhode Island Clean Water Finance Agency was changed to the Rhode Island Infrastructure Bank. RIIB manages the MRBRF on behalf of the State. Therefore, it was determined to be a discretely presented component unit. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Infrastructure Bank, 235 Promenade Street, Suite 119, Providence, RI 02908 or at [www.riinfrastructurebank.com](http://www.riinfrastructurebank.com).

*Rhode Island Health and Educational Building Corporation (RIHEBC)*

RIHEBC has two purposes 1) to aid eligible institutions in the educational and healthcare fields in Rhode Island gain access to capital, remain proactive in developing cost-effective programs, offer staff assistance,

and provide technical resources that benefit these institutions and 2) administer the School Building Authority Capital Fund (SBACF) in order to address high priority projects in communities with limited financial resources. RIHEBC has administrative duties related to the management and custody of monetary assets of the SBACF, including establishing a trust to hold related monies, creating and maintaining SBACF's accounting records and the distribution and management of SBACF's award and loan programs. RIHEBC was determined to be a discretely presented component unit due the materiality of the SBACF.

For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Health and Educational Building Corporation, 50 Dorrance Street, Suite 300, Providence, RI 02903 or at <http://rihebc.com/financial-info/financial-statements/>.

### **Related Organizations**

The Rhode Island Student Loan Authority and Narragansett Bay Commission are "related organizations" of the State under GAAP as defined by GASB. The State is responsible for appointing a voting majority of the members of each entity's board, however, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not included in these financial statements.

## **C. Financial Statement Presentation**

### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the reporting entity's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The net position is reported in three categories:

**Net investment in capital assets** – This category reflects the portion of net position associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

**Restricted** – This category represents the portion of net position whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

## Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

The State reports the following fund types:

### Governmental Fund Types

*Special Revenue Funds* - These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

*Capital Projects Funds* - These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

*Debt Service Funds* - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

*Permanent Fund* - The Permanent School Fund accounts for certain resources and the earnings thereon, which are used for the promotion and support of public education.

### Proprietary Fund Types

*Internal Service Funds* - These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

*Enterprise Funds* - These funds may be used to report any activity for which a fee is charged to external users for goods and services.

### Fiduciary Fund Types

#### *Pension and Other Employee Benefit Trust Funds*

*Pension Trust Funds* - These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, and the defined contribution retirement plan, which all accumulate resources for pension benefit payments to eligible retirees.

*Other Employee Benefit Trust Funds* - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulates resources to provide post-employment health care benefits to eligible retirees.

*Investment Trust Fund* - This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

#### *Private Purpose Trust Funds*

The Rhode Island Higher Education Savings Trust (RIHEST) administers the CollegeBoundfund which was established as part of the Rhode Island Tuition Savings Program (Program) to enable residents of any state to save money on a tax-advantaged basis, to pay qualified higher education expenses of their designated beneficiaries. All assets of the Program are held for the benefit of Program participants.

The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

*Agency Funds* - These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

In accordance with GAAP for government as prescribed by the GASB, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. The general fund is a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, or expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, and
- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, or expenditures/expenses of that fund are at least 5% of the same respective total for all funds being evaluated.

## Major Funds

### Governmental funds:

#### *General Fund*

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

#### *Intermodal Surface Transportation Fund*

This fund accounts for the collection of the gasoline tax, federal grants, bond proceeds, Rhode Island Capital Plan funds, and certain motor vehicle registration and licensing surcharges, that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, the Mission 360 Loan Program and related expenditures. Management considers this a major fund regardless of the above criteria.

### Proprietary funds:

#### *Rhode Island Lottery*

The R.I. Lottery, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at [www.rilot.com](http://www.rilot.com).

#### *Rhode Island Convention Center Authority (RICCA)*

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence.

#### *Employment Security Fund*

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income. Management considers this a major fund regardless of the above criteria.

#### **D. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes, grants and donations are nonexchange transactions, in which the State receives value without directly giving equal value in exchange. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

#### **E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool and other money market mutual funds which are stated at amortized cost, which approximates fair value.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Position.

#### **F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the governmental activities and business-type activities represent the unexpended portion of debt instruments sold primarily for capital acquisitions and historic tax credit financing, as well as funds held by the United States Treasury for the payment of unemployment benefits.



## **G. Investments**

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## **H. Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable amounts (amounts not expected to be collected in the next twelve months) is also reflected.

## **I. Due From Other Governments and Agencies**

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

## **J. Interfund Activity**

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

## **K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Inventories of the University and Colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

## **L. Capital Assets**

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.



Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

<u>Asset Category</u>	<u>Capitalization Thresholds</u>	<u>Estimated Useful Lives</u>
Capital Assets (Depreciable)		
Land improvements	\$1 million	20 years
Buildings	\$1 million	20 - 50 years
Building Improvements	\$1 million	10 - 20 years
Furniture and equipment	\$5 thousand	3 - 10 years
Intangibles	\$1 million	5 years
Infrastructure	\$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized, with the exception of the Convention Center Authority, an enterprise fund.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements. Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

#### **M. Bonds Payable**

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, and deferred gains and losses on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums and deferred gains and losses on refundings are generally deferred and amortized over the term of the bonds using the interest method. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

#### **N. Obligations Under Capital Leases**

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State or similar financing arrangements (See Note 6E).

## **O. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single-employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' fiduciary net position have been recognized on the same basis as they are reported by the System. The primary government's proportionate share of pension amounts were further allocated to proprietary funds (the Lottery) based on the amount of employer contributions paid by each proprietary fund. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 13, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

For the State's two non-contributory (pay-as-you-go) plans covering certain judges and state police, the provisions of GASB Statement No. 73 have been implemented which is largely consistent with the provisions of GASB Statement No. 68, regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability and no employer contributions are made other than the amount needed to provide benefits on a pay-as you-go basis.

For certain employees participating in the LIUNA defined benefit pension plan (a non-governmental union sponsored plan), there is no required employer contribution and no pension expense is recorded in the financial statements. Consistent with the provisions of GASB Statement No. 78, which provides an exception for non-governmental sponsored plans, no determination of the proportionate net pension liability, pension expense, or deferred inflows or outflows, if any, is made for this cost-sharing defined benefit pension plan.

## **P. Compensated Absences**

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as liabilities when earned.

## **Q. Other Assets and Liabilities**

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator. Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

## **R. Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources represent a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2016 are as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities	Primary Government	Component Units
Deferred outflow s of resources:				
Deferred loss on refunding of debt	\$ 77,642	\$ 4,831	\$ 82,473	\$ 9,309
Deferred pension costs - ERS	232,694	1,399	234,093	21,871
Deferred pension costs - single employer plans and other	30,521		30,521	20,200
Derivatives				2,902
Total deferred outflow s of resources	<u>\$ 340,857</u>	<u>\$ 6,230</u>	<u>\$ 347,087</u>	<u>\$ 54,282</u>
Deferred inflow s of resources:				
Deferred pension credit - ERS	\$ 75,928	\$ 300	\$ 76,228	\$ 6,993
Deferred pension credit - single employer plans and other	6,363		6,363	3,953
Deferred gain on refunding of debt	32,909		32,909	1,134
Total deferred inflow s of resources	<u>\$ 115,200</u>	<u>\$ 300</u>	<u>\$ 115,500</u>	<u>\$ 12,080</u>

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2016 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	\$ 6,019	\$	\$ 6,019
Other general revenue	7,143		7,143
Federal revenue	8,358	8,462	16,820
Total deferred inflows of resources	<u>\$ 21,520</u>	<u>\$ 8,462</u>	<u>\$ 29,982</u>

## S. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, or (c) by law through enabling legislation enacted by the General Assembly.
- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

#### T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2016, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

The implementation of GASB Statement No. 72 required the State to address certain accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provided guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements.

The implementation of GASB Statement No. 79 required additional note disclosures for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes, and for governments that participate in those pools, which includes the State of Rhode Island. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The State will adopt the following new accounting pronouncements in future years:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for financial statements for periods beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for financial statements for periods beginning after December 15, 2015. This statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments, which reduce the reporting government's tax revenues. The purpose of the disclosures are to better allow users to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and the impact those abatements have on a government's financial position and economic condition.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*, will be effective for periods beginning after June 15, 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local

governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for reporting periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Management has not yet determined the effect that the above GASB statements will have on the financial statements.

## U. Changes in Reporting Entity

The Rhode Island Higher Education Savings Trust (the Trust), a private purpose trust, which had a beginning fiduciary net position of \$7.4 billion, was previously a fiduciary component unit of the RI Higher Education Assistance Authority, but not included within the State reporting entity. Pursuant to legislation enacted by the General Assembly in the 2015 session, responsibility for oversight of the Trust was transferred to the General Treasurer effective July 1, 2015, and the Trust's financial statements are now included as a fiduciary (private purpose trust) fund.

The Rhode Island Higher Education Assistance Authority, previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (the Division) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal year 2016 financial statements include the Division as a discretely presented component unit. Beginning net position was decreased for the net position of the RI Higher Education Assistance Authority which ceased operations on June 30, 2015. A fiscal 2016 special item reflects the transfer of net position to the new Division.

The classifications of the Rhode Island Infrastructure Bank (RIIB) and the Rhode Island Health and Educational Building Corporation (RIHEBC) were changed from related organizations to discretely presented component units of the State for fiscal year 2016. The change in classification for the RIIB was pursuant to the RIIB's management of the newly created Municipal Road and Bridge Revolving Fund for the State. The change in classification for RIHEBC was due to its management of the newly created School Building Authority Capital Fund's program for the State.

## Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

### A. Primary Government-Governmental and Business-Type Activities

#### Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible

collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2016 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with GASB No. 79 – *Certain External Investment Pools and Pool Participants*. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2016, of the \$542.0 million invested, \$23.4 million were Collateralized Repurchase Agreements.

With the exception of \$1.2 million in bank balances of the R.I. Convention Center Authority, as of June 30, 2016 all of the bank balances of the primary government and its blended component units were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's or the blended component unit's name.

### **Cash Equivalent Investments and Investments**

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust, which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012, under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2, of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with GASB 79 – *Certain External Investment Pools and Pool Participants*.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at NAV are not subject to the fair value hierarchy. There are no participant withdrawal limitations.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

### **Fair Value of Financial Instruments**

GASB Statement No. 72—*Fair Value Measurement and Application*—establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:



- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 - Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.



Following is a description of the State's cash equivalents and investments (expressed in thousands) at June 30, 2016 are as follows:

<b>Pooled cash equivalents (at amortized cost)</b>	
Financial company commercial paper	\$ 314,074
Other commercial paper	35,420
Asset backed commercial paper	51,620
Government agency repurchase agreement	15,417
Other repurchase agreements	8,000
Certificates of deposit	77,153
Other Municipal Debt	300
Other notes	31,000
Other Instruments	9,000
Total investments	541,984
Less: other liabilities in excess of other assets	(47)
Total investment pool	541,937
<b>Less: funds held by fiduciary funds and discretely presented component units</b>	
Amounts categorized as funds on deposit with fiscal agent	2
Amounts held by fiduciary trust funds:	
Pension trusts	5,426
OPEB trust	784
RIPTA health fund	36
Amounts held by discretely presented component units:	
URI	30,205
RIIB	13,928
RIIRBA	1,716
RIHEBC	2,260
Amounts held for external parties	1,869
<b>Primary government pooled cash equivalents</b>	<b>\$ 485,712</b>
<b>Add: other primary government cash equivalents and investments</b>	
Repurchase agreements	4,213
Money Market Mutual Funds	55,267
<b>Total primary government cash equivalents and investments</b>	<b>\$ 545,192</b>
Cash equivalents and investments	\$ 545,192
Cash	539,388
Total cash, cash equivalents and investments	\$ 1,084,580
<u>Statement of Net Position</u>	
Cash and cash equivalents	\$ 1,030,104
Restricted cash and cash equivalents	54,476
Total cash, cash equivalents and investments	\$ 1,084,580

Of the State's restricted cash and cash equivalents totaling \$54.4 million, \$52.2 million is held by the Tobacco Settlement Financing Corporation and \$2.2 million is held by the R.I. Convention Center Authority. Both entities are blended component units.

Investments held within the OSIP pooled trust are valued and net asset value per unit (NAV) is calculated daily on the last calendar day of the period. The OSIP pooled trust categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as described previously. The securities held within the OSIP pooled trust are valued at amortized cost, which approximates fair value. Securities held within the OSIP pooled trust are generally high quality and liquid; however, they are reflected as Level 2 in the hierarchy because the inputs used to determine fair value are not quoted prices in an active market.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian for the investments of the primary government.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

As of June 30, 2016, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

### Pooled Cash Equivalents

Investment Type	Investment Maturities (in days) (At Amortized Cost)				
	At Fair Value	Total Amortized Cost	0-30	31-90	91-180
Financial Company Commercial Paper	\$ 314,138	\$ 314,074	\$ 117,649	\$ 117,064	\$ 79,361
Other Commercial Paper	35,421	35,420	20,431	14,989	
Asset Backed Commercial Paper	51,620	51,620	47,232	4,388	
Gov't Agency Repurchase Agreements	15,417	15,417	15,417		
Other Repurchase Agreements	8,000	8,000	8,000		
Certificates of Deposit	77,153	77,153	77,153		
Other Municipal Debt	300	300			300
Other Notes	31,000	31,000	31,000		
Other Instruments	9,000	9,000	9,000		
	<u>\$ 542,049</u>	<u>\$ 541,984</u>	<u>\$ 325,882</u>	<u>\$ 136,441</u>	<u>\$ 79,661</u>

### Non-pooled Cash Equivalents and Investments

Investment Type	Fair Value
Money Market Mutual Funds	55,267
Repurchase agreements	4,213
Cash equivalents and investments	<u>\$ 59,480</u>

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2016, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

### Pooled Cash Equivalents

Investment Type	Quality Ratings (1) (At Amortized Cost)			
	At Fair Value	Total Amortized Cost	A-1+	A-1
Financial Company Commercial Paper	\$ 314,138	\$ 314,074	\$ 87,407	\$ 226,667
Other Commercial Paper	35,421	35,421		35,421
Asset Backed Commercial Paper	51,620	51,619		51,619
Gov't Agency Repurchase Agreements	15,417	15,417	15,417	
Other Repurchase Agreements	8,000	8,000	2,000	6,000
Certificates of Deposit	77,153	77,153	27,053	50,100
Other Municipal Debt	300	300	300	
Other Notes	31,000	31,000		31,000
Other Instruments	9,000	9,000	9,000	
	<u>\$ 542,049</u>	<u>\$ 541,984</u>	<u>\$ 141,177</u>	<u>\$ 400,807</u>

The Ocean State Investment Pool has not been assigned credit quality ratings by rating agencies.

### Non-pooled Cash Equivalents and Investments:

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	2,842	Money Market	Aaa-mf	45
Goldman Sachs Treasury Instruments Fund	52,425	Money Market	Aaa-mf	44
	<u>\$ 55,267</u>			

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

### Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the related debt. The trust agreements outline the specifically permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2016 and the breakdown by maturity are as follows:

Investment Type	Fair Value
Money Market Mutual Funds	\$ 138,494
Investment Contracts	6,314
	<u>\$ 144,808</u>

All of the investments have a maturity date of less than one year.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

The investments with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
<b>Money Market Funds</b>			
Dreyfus Treasury Prime Cash Management Fund	\$ 20	Aaa-mf	24
Federated Govt. Obligation Tax Managed Fund	17,017	Aaa-mf	53
Fidelity Institutional Money Market Gvt. Port Class III	54,532	Aaa-mf	42
First American Government Obligations Fund	34,877	Aaa-mf	26
Goldman Sachs Financial Square Money Market Fund	23,334	Aaa-mf	17
Wells Fargo Advantage 100% Treasury Money Market Fund	83	Aaa-mf	47
Invesco STIT Liquid Asset Portfolio	8,374	Aaa-mf	32
Morgan Stanley Prime Portfolio	255	Aaa-mf	21
Ocean State Investment Pool	2	N/A	N/A
<b>Investment Contracts</b>			
FSA Capital Management GIC	6,314	N/A	N/A
	<u>\$ 144,808</u>		

Funds on deposit with fiscal agent also include approximately \$201.7 million held by the Federal Unemployment Insurance Trust Fund.

## B. Concentration of Credit Risk

The State Investment Commission has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	57,374	8.37%
Money Market Funds	First American Government Obligations Fund	34,877	5.09%
Money Market Funds	Goldman Sachs Treasury Instruments Fund	52,425	7.64%

## C. Pension Trusts

### Investments

Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

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**Methods Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Short-term investments are generally carried at cost or amortized cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

Commingled funds include institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate, hedge funds, and infrastructure investments) are valued based on the reported Net Asset Value (NAV) by the fund manager or general partner. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner following U.S. generally accepted accounting principles. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures*, requires hedge funds and private equity, real estate, and infrastructure investment limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Hedge funds, private equity, real estate, and infrastructure investments represented 14.4%, 7.1%, 6.8%, and 3.4% respectively of the total reported fair value of all pension pooled trusts investments at June 30, 2016.

**Investment expenses**

Certain investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

**Cash Deposits and Cash Equivalents**

At June 30, 2016, the carrying amounts of the System's cash deposits was approximately \$5.9 million and the bank balance was approximately \$1.2 million. The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balances include interest-bearing collateralized bank deposits and are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third party custodian. The primary difference between book and bank balances are deposits in transit.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2016 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

### **Investments – Pooled Investment Trust**

The custodian bank holds assets of the System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

### **Investment policy**

The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The SIC has established an asset allocation policy which may be amended by the SIC Board by a majority vote of its members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

Consistent with a target asset allocation model adopted by the SIC, the System directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2016:

<b>Pooled Investment Trust Investment Type</b>	<b>Fair Value (in thousands)</b>
Cash and Cash Equivalents	\$ 44,845
Money Market Mutual Funds	143,117
US Government Securities	641,616
US Government Agency Securities	322,825
Collateralized Mortgage Obligations	24,446
Corporate Bonds	430,489
Term Loans	322,446
Domestic Equity Securities	461,870
International Equity Securities	296,333
Commingled Funds - Domestic Equity	1,313,511
Commingled Funds - International Equity	1,201,749
Private Equity	533,980
Real Estate	507,980
Hedge Funds	1,081,506
Infrastructure Investments	254,615
Derivative Investments	18
<b>Investments at Fair Value</b>	<b>\$ 7,581,346</b>
Receivable for investments sold	55,385
Payable for investments purchased	(111,424)
<b>Total</b>	<b>\$ 7,525,307</b>



## Fair value hierarchy

### Investments and Derivative Instruments Measured at Fair Value

(in thousands)		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments at Fair Value</u>	<u>June 30, 2016</u>			
<b>Equity Securities</b>				
Global Equity	\$ 758,203	\$ 758,132	\$	\$ 71
Infrastructure - publicly traded	171,211	171,211		
	<u>\$ 929,414</u>	<u>\$ 929,343</u>	<u>\$ -</u>	<u>\$ 71</u>
<b>Debt Securities</b>				
US Government Securities	\$ 641,616	\$ 641,616	\$	\$
US Government Agency Securities	322,825		322,825	
Corporate Bonds	430,488		430,488	
Collateralized Mortgage Obligations	24,446		24,446	
Term Loans	322,446			322,446
	<u>\$ 1,741,821</u>	<u>\$ 641,616</u>	<u>\$ 777,759</u>	<u>\$ 322,446</u>
Total investments by fair value level	<u>\$ 2,671,235</u>	<u>\$ 1,570,959</u>	<u>\$ 777,759</u>	<u>\$ 322,517</u>
<b>Investments measured at the net asset value (NAV)</b>				
Money Market Mutual Funds	\$ 143,117			
Commingled Funds - Domestic Equity	1,313,511			
Commingled Funds - International Equity	1,201,750			
Hedge Funds	1,081,506			
Private Equity	533,979			
Real Estate	507,980			
Infrastructure Investments	83,405			
	<u>\$ 4,865,248</u>			
<b>Derivative investments</b>				
Equity index futures	\$ 179	\$ 179		
Other derivatives (net)	(161)		\$ (161)	
	<u>\$ 18</u>			
<b>Cash and cash equivalents</b>	<u>\$ 44,845</u>			
<b>Net investment payable</b>	<u>\$ (56,039)</u>			
<b>Total Pooled Investment Trust</b>	<u><u>\$ 7,525,307</u></u>			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

The following table presents the investments by type that are measured at the net asset value (NAV) (expressed in thousands):

**Investments measured at the net asset value (NAV)**

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period</b>
Money Market Mutual Funds (1)	\$ 143,117	-	daily	none
Commingled Funds - Domestic Equity (2)	1,313,511	-	daily	none
Commingled Funds - International Equity (2)	1,201,749	-	bi-monthly	none
Hedge Funds (3)	1,081,506	-	see note	see note
Private Equity (4)	533,980	379,661	see note	see note
Real Estate (5)	507,980	93,731	see note	see note
Infrastructure Investments (6)	83,405	64,975	see note	see note
	<u>\$ 4,865,248</u>	<u>\$ 538,367</u>		

- (1) **Money market mutual funds** - these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for pension benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments which are short-term cash equivalent typed investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.
- (2) **Commingled funds** – consist of one domestic and three international equity index funds which are intended to replicate the performance of a specific index; e.g., Russell 3000. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings within each fund. The international equity commingled funds may be only be redeemed at scheduled intervals twice per month. There are no withdrawal limitations for the domestic equity index fund.
- (3) **Hedge funds** – this portfolio is comprised of 17 limited partnerships divided into two sub-categories: hedged equity and absolute return. Hedged equity funds are designed to benefit from the stock market with considerably less risk. They own stakes in companies they expect to outperform and also sell short stocks that they expect to underperform. Absolute return hedge funds employ strategies that seek to generate long-term returns and mitigate risk, regardless of broader market moves. The funds invest across asset classes, including government bonds, other fixed income securities, equity indexes, commodities, and currencies.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016. Of the underlying holdings within the hedge funds, approximately 74% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments).

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2016, investments totaling \$102,040,478 are subject to these withdrawal limitation provisions. In addition, assets totaling \$300,157 are held in Indus Asia Pacific Distribution Holding Company II, Ltd., a vehicle managing the liquidation of investments held in private securities. Cash will be distributed as investments are sold. The remainder of hedge fund assets is available for redemption on a month-end, quarter-end, semi-annual or annual basis, and is subject to notice periods which vary by fund and range from 2 days to 150 days.

- (4) **Private equity** – these 80 limited partnership funds provide the portfolio exposure to private companies through equity and/or debt investments. Private equity fund managers invest in private companies with the goal of enhancing their value over the long-term.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

Private equity – the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (5) **Real Estate** – these 14 limited partnerships investments are comprised of two different private real estate equity components, Core and Non-Core, which generally refer to the relative levels of risk in the underlying assets. Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise and skill to mitigate the business and leasing risks that may be associated with individual investments. Non-Core investments, which may be referred to as Value Added and Opportunistic investments, are expected to be held for shorter periods, have greater volatility compared to Core investments, and as such, are expected to provide yields higher than those associated with Core investments.

These funds acquire, manage and sell physical properties, including office, retail, apartment, and industrial buildings as well as more niche property types, such as student housing, self-storage and hotels. The primary goals of this asset class are to provide current income, risk-adjusted total returns, and diversification.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

With the exception of five core open-end funds which allow for quarterly redemptions, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (6) **Infrastructure** – These funds provide inflation-protection and current income to the portfolio through investments in facilities and services required for an economy to function including electricity production and distribution, pipelines, sewers and waste management, airports, roads, bridges, ports, railroads, telephone and cable networks, and hospitals.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

With the exception of one open-end core fund which allows for quarterly liquidity, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. The System manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the System are:

- Barclays US Aggregate Index
- Barclays US Treasury Inflation Notes - 1-10 Year Index
- Custom loan and high yield index – 30% Bank of America Merrill Lynch 1-3 Year BB-B High Yield, 35% JP Morgan BB/B Leveraged Loan Index and 35% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2016, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2016:

<b>Investment Type:</b>	<b>Fair Value (in thousands)</b>	<b>Effective Duration</b>
US Government Securities	\$ 641,616	5.14
US Government Agency Securities	322,825	2.29
Collateralized Mortgage Obligations	24,446	0.42
Corporate Bonds	430,489	6.48
Term Loans	322,446	0.52
Total Fixed Income	<u>\$ 1,741,822</u>	4.41

The System had money market mutual fund investments at June 30, 2016 totaling \$143 million including \$5 million in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (NAV) per share. Other money market mutual funds totaling \$138 million had a weighted average maturity of approximately 83 days at June 30, 2016.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

## Credit Risk

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2016 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	US Government Agency Securities	Corporate Bonds	Term Loans
Aaa	\$ 11,117	\$ 322,825	\$ 16,080	\$ 5,572
Aa	2,375		19,821	1,083
A	9,361		66,705	1,910
Baa	1,593		234,921	25,975
Ba			50,884	106,183
B			23,856	147,562
Caa			16,206	6,075
Ca			51	348
C			6	
D				501
Not Rated			1,959	27,237
Fair Value	<u>\$ 24,446</u>	<u>\$ 322,825</u>	<u>\$ 430,489</u>	<u>\$ 322,446</u>

Ratings for the above were provided by Moody's Investor Service.

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the System's pooled investment trust that comprises 5% of the overall portfolio.

## Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The System's exposure to foreign currency risk at June 30, 2016, was as follows (expressed in thousands):

Foreign Currency	Commingled Funds	Equities	Private Equity	Derivatives	Total
Australian Dollar	\$ 56,042	\$ 21,197	\$	\$ 13	\$ 77,252
Brazilian Real	20,490				20,490
Canadian Dollar	100,291	28,338	4,086	17	132,732
Chilean Peso	3,755				3,755
Colombian Peso	1,482				1,482
Czech Republic Koruna	542			214	756
Danish Krone	15,197	8,239			23,436
Egyptian Pound	689				689
Euro Currency	230,239	83,048	64,101		377,388
Great Britain Pound	152,251	47,284		567	200,102
Hong Kong Dollar	90,404	9,001			99,405
Hungarian Forint	853				853
Indian Rupee	25,941				25,941
Indonesia Rupiah	9,011				9,011
Israeli Shekel	4,655	1,897			6,552
Japanese Yen	184,913	59,198		(756)	243,355
Malaysian Ringgit	9,288				9,288
Mexican Peso	13,019				13,019
New Taiwan Dollar	37,653				37,653
New Zealand Dollar	1,483	518			2,001
Norwegian Krone	5,005	1,498			6,503
Peruvian Nouveau Sol	1				1
Philippine Peso	4,940				4,940
Polish Zloty	3,595				3,595
Qatari Riyal	2,851				2,851
Russian Ruble	3,122				3,122
Singapore Dollar	11,220	4,275			15,495
South African Rand	23,289				23,289
South Korean Won	46,021				46,021
Swedish Krona	21,554	7,991		38	29,583
Swiss Franc	69,645	23,848			93,493
Thailand Baht	6,776				6,776
Turkish Lira	4,383				4,383
United Arab Emirates Dirham	2,570				2,570
<b>Total</b>	<b>\$ 1,163,170</b>	<b>\$ 296,332</b>	<b>\$ 68,187</b>	<b>\$ 93</b>	<b>\$ 1,527,782</b>
United States Dollar	38,579				
<b>Grand Total</b>	<b>\$ 1,201,749</b>				

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

### Derivatives and Other Similar Investments

Certain of the System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

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### **Forward foreign currency contracts**

The System enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

### **Futures contracts**

The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.



The following summarize the System's exposure to specific derivative investments at June 30, 2016 (expressed in thousands):

<b>Investment Derivative Instruments</b>	<b>Change in fair value included in investment income</b>	<b>Fair Value at June 30, 2016</b>	<b>Notional Amount</b>
Fixed income futures - long	\$ 39		\$
Fixed income futures - short			
Equity index futures - long	320	179	81,775
Equity index futures - short	(1,036)		
Credit default swaps	21	101	2,074
Interest rate swaps	54	(262)	(4,093)
<b>Total</b>	<b>\$ (602)</b>	<b>\$ 18</b>	
Foreign currency forward contracts:			
Pending Payable (liability)		\$ (1,073)	
Pending Receivable (asset)		505	
		<b>\$ (568)</b>	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2016 was \$505 thousand. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

Credit default swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection).

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa2 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Standard and Poor's.

#### **Other Investments – Defined Contribution Plan**

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

Of the \$514 million of investments held within the defined contribution plan, 91% are in target retirement date mutual funds. Additionally, 98% of plan investments are held in mutual funds that are classified as Level 1 investments within the fair value hierarchy.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

#### **D. OPEB Trust Funds**

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post-employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Education.

#### **Cash Deposits and Cash Equivalents**

At June 30, 2016, the carrying amount of the OPEB System's cash deposits was approximately \$3.1 million and the bank balance was \$3.1 million. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2016, the OPEB System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2016, the OPEB System also had cash equivalent investments consisting of approximately \$.8 million in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.1% of the total investment in OSIP at June 30, 2016. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with GASB 79 – *Certain External Investment Pools and Pool Participants*, and thus reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at the NAV are not subject to Fair Value Hierarchy. There are no participant withdrawal limitations. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

#### **Investments**

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b) (3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function

of each plan's respective contributions to, or withdrawals from, the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2016 (expressed in thousands):

<b>Investments at Fair Value</b>	<b>June 30, 2016</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Debt Securities</b>				
US Government Securities	\$ 22,081	\$ 22,081		\$
US Government Agency Securities	18,202		18,202	
Corporate Bonds	20,010		20,010	
Total investments by fair value level	\$ 60,293	\$ 22,081	\$ 38,212	\$
<b>Investments measured at the net asset value (NAV)</b>				
Money Market Mutual Funds	\$ 8,432			
Commingled Funds - Domestic Equity	115,128			
	123,560			
<b>Net investment payable</b>	<b>\$ (5,694)</b>			
<b>Total Pooled Investment Trust</b>	<b>\$ 178,159</b>			

**Commingled funds** – consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for the domestic equity index fund.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2016 (expressed in thousands):

<b>Investment Type:</b>	<b>Fair Value</b>	<b>Effective Duration</b>
US Government Securities	\$ 22,081	7.44
US Government Agency Securities	18,202	2.00
Corporate Bonds	20,010	7.00
	<u>\$ 60,293</u>	4.97

The OPEB System's investment in the Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 24 days at June 30, 2016.

## Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2016 is as follows (expressed in thousands):

Rating (1)	US Government Agency Securities	Corporate Bonds
Aaa	\$ 18,202	\$ 576
Aa		1,504
A		6,240
Baa		11,469
Ba		221
Fair Value	<u>\$ 18,202</u>	<u>\$ 20,010</u>

### (1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAm by Standard & Poor's Investors Service.

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

## Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

## Derivatives and Other Similar Investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

## E. Private Purpose Trusts

The Tuition Savings Program had investments of approximately \$6.7 billion in a number of mutual funds and other investment vehicles as of June 30, 2016. These investments are categorized as Level 1 of the fair value hierarchy.

The Touro Jewish Synagogue Fund had investments of approximately \$2.7 million in the Fidelity Balanced Fund as of June 30, 2016. These investments are categorized in Level 1 of the fair value hierarchy.

## F. Agency Funds

As of June 30, 2016, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

**Note 3. Receivables**

Receivables at June 30, 2016 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	\$ 488,064	\$ 526,261	\$ 11,054	\$ 1,025,379	\$ 154,894	\$ 51,597
Less: Allowance for Uncollectibles	108,545	111,411	2,630	222,586		
Governmental receivables, net	379,519	414,850	8,424	802,793	154,894	51,597
Business-type receivables	81,486	28,261		109,747	1,362	
Less: Allowance for Uncollectibles	4,238	18,474		22,712		
Business-type receivables, net	77,248	9,787		87,035	1,362	
Receivables, Net of Allowance for Uncollectibles	456,767	424,637	8,424	889,828	156,256	51,597
Less: Current Portion						
Governmental receivables	373,500	399,350	4,952	777,802	143,868	4,222
Business-type receivables	77,248	9,787		87,035	1,362	
Noncurrent Receivables, Net	\$ 6,019	\$ 15,500	\$ 3,472	\$ 24,991	\$ 11,026	\$ 47,375

**Note 4. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables as of June 30, 2016 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	\$ 4,054	\$	Operating expenses
Intermodal Surface Transportation	941		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance	84		Operating expenses
RI Historic Tax Credit	306		Tax credit fees owed to fund
Bond Capital		1,115	Project funding
RI Capital Plan		1,225	Primarily for transportation State match
Total Non-Major Funds	390	2,340	
Total Governmental Funds	5,385	2,340	
Proprietary Funds			
Enterprise			
RI Lottery	444	1,679	Net income owed to General Fund
RI Convention Center Authority	269	172	Project funding
Employment Security Trust		990	Benefit payments
Total Enterprise Funds	713	2,841	
Internal Service	1,023	1,940	Settlement of services rendered
Total primary government	\$ 7,121	\$ 7,121	

## Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2016 consists of the following (expressed in thousands):

### Primary Government

#### Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 392,753	\$ 3,157	\$ (2,171)	\$ 393,739
Works of Art	2,923	526		3,449
Intangibles	170,130	1,862		171,992
Construction in progress*	513,518	346,553	(211,792)	648,279
Total capital assets not being depreciated or amortized	1,079,324	352,098	(213,963)	1,217,459
Capital assets being depreciated or amortized:				
Land improvements	3,700	965		4,665
Buildings	721,971	3,294	(714)	724,551
Building Improvements	279,919	92,677		372,596
Furniture and equipment	294,897	21,340	(11,444)	304,793
Intangibles	14,040			14,040
Infrastructure	3,954,550	114,844		4,069,394
Total capital assets being depreciated or amortized	5,269,077	233,120	(12,158)	5,490,039
Less accumulated depreciation or amortization for:				
Land improvements	3,501	49		3,550
Buildings	250,883	22,280	(453)	272,710
Building Improvements	200,244	2,353		202,597
Furniture and equipment	234,744	18,957	(11,149)	242,552
Intangibles	14,042			14,042
Infrastructure	1,794,871	132,308		1,927,179
Total accumulated depreciation or amortization	2,498,285	175,947	(11,602)	2,662,630
Total capital assets being depreciated or amortized, net	2,770,792	57,173	(556)	2,827,409
Governmental activities capital assets, net	\$ 3,850,116	\$ 409,271	\$ (214,519)	\$ 4,044,868

\* Beginning balances have been restated.

The current period depreciation or amortization was charged to the governmental functions on the Statement of Activities as follows:

General government	\$ 9,165
Human services	7,183
Education	6,422
Public safety	15,422
Natural resources	5,645
Transportation	132,110
Total depreciation or amortization expense - governmental activities	\$ 175,947

**Business-type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 46,808	\$	\$	\$ 46,808
Construction in progress	178	285	(170)	293
Total capital assets not being depreciated	46,986	285	(170)	47,101
Capital assets being depreciated:				
Buildings	234,384			234,384
Machinery and equipment	31,255	2,154	(2,305)	31,104
Intangibles	175			175
Total capital assets being depreciated	265,814	2,154	(2,305)	265,663
Less accumulated depreciation for:				
Buildings	133,836	8,182		142,018
Machinery and equipment	24,330	2,328	(2,306)	24,352
Intangibles	65	25		90
Total accumulated depreciation	158,231	10,535	(2,306)	166,460
Total capital assets being depreciated, net	107,583	(8,381)	1	99,203
Business-type activities capital assets, net	\$ 154,569	\$ (8,096)	\$ (169)	\$ 146,304

**Discretely Presented Component Units**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	\$ 117,441	\$ 3,375	\$ (233)	\$ 120,583
Construction in progress	175,791	100,965	(178,556)	98,200
Other	250			250
Total capital assets not being depreciated or amortized	293,482	104,340	(178,789)	219,033
Capital assets being depreciated or amortized:				
Buildings *	2,075,187	176,533	(514)	2,251,206
Land improvements *	217,730	6,666	(22)	224,374
Machinery and equipment *	429,510	39,968	(8,030)	461,448
Infrastructure	229,924	32,364	(465)	261,823
Total capital assets being depreciated or amortized	2,952,351	255,531	(9,031)	3,198,851
Less accumulated depreciation or amortization for:				
Buildings *	802,436	71,045	(218)	873,263
Land improvements *	130,139	7,121		137,260
Machinery and equipment *	272,056	32,973	(7,218)	297,811
Infrastructure	70,475	10,625		81,100
Total accumulated depreciation or amortization	1,275,106	121,764	(7,436)	1,389,434
Total capital assets being depreciated or amortized, net	1,677,245	133,767	(1,595)	1,809,417
Total capital assets, net	\$ 1,970,727	\$ 238,107	\$ (180,384)	\$ 2,028,450

\* Beginning balances have been restated.



**Note 6. Long-Term Liabilities****A. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2016 are presented in the following table:

	<b>Long-term Liabilities</b> (Expressed in Thousands)				Amounts	Amounts
	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
<b>Governmental Activities</b>						
<i>Bonds Payable</i>						
General obligation bonds (see section B)	\$ 1,022,895	\$ 300,955	\$ (272,040)	\$ 1,051,810	\$ 47,930	\$ 1,003,880
RICC Grant Anticipation Revenue Bonds	244,870	230,280	(244,870)	230,280		230,280
RICC Rhode Island Motor Fuel Tax Revenue Bonds	58,340		(4,375)	53,965	4,200	49,765
Tobacco Settlement Asset-Backed Bonds	716,201		(21,155)	695,046	11,335	683,711
Accreted interest on TSFC bonds	73,379	11,845		85,224		85,224
RICC Historic Tax Credit Bonds	132,390		(25,395)	106,995	26,770	80,225
Net unamortized premium/discount	139,869	73,516	(26,244)	187,141		187,141
Bonds Payable, net	2,387,944	616,596	(594,079)	2,410,461	90,235	2,320,226
Obligation under capital leases (see section E)	235,130	5,021	(25,830)	214,321	27,976	186,345
Net unamortized premium/discount	20,451		(3,682)	16,769		16,769
Obligation under capital leases, net	255,581	5,021	(29,512)	231,090	27,976	203,114
Net pension liability (see note 13)	1,917,169	195,936		2,113,105		2,113,105
Net pension liability-special funding situation (see note 13)	990,129	127,266		1,117,395		1,117,395
Net OPEB Obligation (see note 14 C)	8,520		(17)	8,503		8,503
Job Creation Guaranty Program Obligation (see section H)	64,097		(26,007)	38,090		38,090
Compensated absences (see section J)	77,900	78,524	(81,213)	75,211	68,579	6,632
Special obligation notes	3,075		(3,075)			
Pollution remediation (see section I)	5,499	2,148	(4,042)	3,605	2,148	1,457
Other (see section M)	8,395	13,555	(6,826)	15,124	878	14,246
Total Governmental Long-term Liabilities	<u>\$ 5,718,309</u>	<u>\$ 1,039,046</u>	<u>\$ (744,771)</u>	<u>\$ 6,012,584</u>	<u>\$ 189,816</u>	<u>\$ 5,822,768</u>
<b>Business-type Activities</b>						
Revenue bonds (see section B)	\$ 215,210	\$	\$ (11,330)	\$ 203,880	\$ 11,440	\$ 192,440
Net unamortized premium/discount	6,564		(1,817)	4,747		4,747
Revenue bonds, net	221,774		(13,147)	208,627	11,440	197,187
Net pension liability	13,315	1,759		15,074		15,074
Unearned Revenue	8,116	1,983	(913)	9,186	4,833	4,353
Compensated absences (see section J)	506	386	(327)	565	233	332
Total Business-type Long-term Liabilities	<u>\$ 243,711</u>	<u>\$ 4,128</u>	<u>\$ (14,387)</u>	<u>\$ 233,452</u>	<u>\$ 16,506</u>	<u>\$ 216,946</u>
<b>Component Units</b>						
Bonds payable (see section B)	\$ 2,706,958	\$ 614,662	\$ (553,503)	\$ 2,768,117	\$ 117,478	\$ 2,650,639
Net unamortized premium/discount	74,331	47,301	(19,397)	102,235	14,534	87,701
Bonds Payable, net	2,781,289	661,963	(572,900)	2,870,352	132,012	2,738,340
Notes payable (see section C)	141,950	338,083	(366,045)	113,988	79,384	34,604
Loans payable (see section D)	47,610	772	(1,563)	46,819	1,177	45,642
Obligations under capital leases	6,224	351	(1,321)	5,254	1,318	3,936
Net pension liability	238,714	32,720	(32)	271,402		271,402
Net OPEB obligation	61,627	6,710	(15)	68,322		68,322
Compensated absences (see section J)	31,336	1,750	(1,880)	31,206	10,171	21,035
Due to primary government (see section L)	56,481		(4,884)	51,597	4,222	47,375
Unearned Revenue	24,356	590	(4,373)	20,573	6,305	14,268
Due to Component Units	3,315	105	(1,599)	1,821	343	1,478
Other Long-term liabilities						
Arbitrage rebate (see section K)	2,413		(872)	1,541	600	941
Pollution remediation (see section I)	21,184	5,755		26,939	1,412	25,527
Other liabilities (see section M)	322,994	31,270	(8,085)	346,179	13,301	332,878
Total Component Units Long-term Liabilities	<u>\$ 3,739,493</u>	<u>\$ 1,080,069</u>	<u>\$ (963,569)</u>	<u>\$ 3,855,993</u>	<u>\$ 250,245</u>	<u>\$ 3,605,748</u>

Certain beginning balances have been reclassified to conform to the current financial statement presentation.

**B. Bonds Payable**

At June 30, 2016, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 90,235	\$ 92,588	\$ 11,440	\$ 11,025	\$ 117,478	\$ 106,345
2018	122,835	88,742	11,110	10,463	132,510	102,133
2019	138,375	83,051	11,660	9,906	141,497	97,315
2020	145,505	76,665	12,240	9,312	139,905	91,880
2021	144,835	70,059	14,350	8,693	141,298	86,080
2022 - 2026	633,500	249,518	80,980	31,993	652,390	349,534
2027 - 2031	292,120	135,165	38,200	12,413	568,470	222,548
2032 - 2036	137,550	83,892	23,900	3,727	420,930	118,394
2037 - 2041	105,405	62,159			281,465	53,924
2042 - 2046	85,820	45,730			109,204	23,552
2047 - 2051	121,130	24,226			56,150	6,715
2052 - 2056	120,786	1,608,984 *			5,785	718
2057 - 2061					1,035	21
	<u>\$ 2,138,096</u>	<u>\$ 2,620,779</u>	<u>\$ 203,880</u>	<u>\$ 97,532</u>	<u>\$ 2,768,117</u>	<u>\$ 1,259,159</u>

\* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

**Primary Government - Governmental Activities**

General obligation bonds of the State are serial bonds with interest payable semi-annually.

In July 2015 the State issued \$175.2 million of general obligation refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2017 through 2028. These bonds, combined with the premium of \$23.8 million, were used to advance refund \$190.1 million of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding resulted in a reduction of debt service of \$7.4 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$634 thousand. A deferred loss on the refunding of approximately \$3.2 million was recorded.

In May 2016 the State issued \$58.8 million of general obligation bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2018 through 2036 and \$13.1 million of taxable general obligation bonds with interest rates ranging from 0.750% to 1.750%, maturing from 2017 through 2021. The premium paid on these bonds was \$4.8 million and \$55 thousand, respectively. The State also issued \$53.8 million of general obligation refunding bonds with an interest rate of 5.00%, maturing from 2018 through 2023, with a premium of \$6.2 million. These bonds, combined with the premium, were used to advance refund \$58.4 million of bonds with interest rates from 4.00% to 5.00% and maturities from 2017 to 2023. The refunding resulted in a reduction of debt service of \$4.26 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$4.25 million. A deferred loss on the refunding of approximately \$42 thousand was recorded.

At June 30, 2016, general obligation bonds authorized by the voters and unissued amounted to approximately \$319.6 million. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - \$7.0 million and (2) Nursing Education Center Debt - \$36 million.

**Historic Tax Credit Bonds** - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued \$150 million and \$75 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee, subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used

to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to \$131.2 million of Historic Tax Credit Bonds.

***RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds*** - RICC, on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty-three cents (\$.33) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof.

In May 2016 RICC issued \$230.3 million of general Grant Anticipation refunding bonds with interest rates ranging from 3.00% to 5.00%, maturing from 2019 through 2024. These bonds, combined with the premium of \$38.6 million, were used to advance refund \$244.9 million of bonds with interest rates from 3.75% to 5.25% and maturities from 2016 to 2021. The refunding resulted in a reduction of debt service of \$11.3 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2.4 million. A deferred loss on the refunding of approximately \$18.2 million was recorded. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2016 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2024 and 2027, respectively.

***Tobacco Settlement Asset-Back Bonds and Accreted Interest*** – The Tobacco Settlement Financing Corporation (TSFC) has issued \$685.4 million (2002 Series), \$197 million (2007 Series), and \$620.9 million (2015 Series) of Tobacco Settlement Asset-Backed Bonds. The bond proceeds of the 2002 Series and the 2007 Series were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment. The 2015 Series bond proceeds were used to fully redeem the remaining balance, \$547.8 million, of the 2002 Series bonds, and to repurchase and retire a portion of the 2007 Series bonds, in the amount of \$76.2 million.

All of the bonds are subject to a number of early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. Term Maturities represent the minimum amount of principal that the Corporation has to pay as of specific dates. Certain of the bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which were issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply the funds collected that are in excess of the then current funding requirements of the indenture to the early redemption of certain of the Series 2015 B bonds (based upon a minimum turbo redemption schedule established for the bonds) and then to the Series 2007 bonds. The amount available for turbo redemptions on the Series 2015 B bonds are credited against the term maturities in ascending chronological order based on a schedule contained in the indenture. Excess turbo funds available, if any, will be used to retire Series 2007 bonds.

The bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose, and neither the faith and credit nor the taxing power of the State of Rhode Island or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The bonds do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State.

### **Primary Government - Business-Type Activities**

#### *R.I. Convention Center Authority*

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of \$305 million. At June 30, 2016, outstanding bond indebtedness totaled \$203.9 million.

In June 2006, RICCA issued Civic Center Revenue Bonds, 2006 Series A (federally taxable), in an aggregate principal amount of \$92.5 million for the purpose of (i) financing or refinancing the acquisition, renovation, equipping, improvement and redevelopment of the Dunkin' Donuts Center (DDC), (ii) redeeming the \$33.0 million Civic Center Revenue Bonds, 2005 Series A, previously issued by RICCA, (iii) paying the costs of issuance, and (iv) paying capitalized interest on the 2006 Series A Bonds. The 2006 Series A bonds mature between 2008 and 2035 and bear interest at rates ranging from 5.59% to 6.06%.

In March 2009, RICCA issued Refunding Revenue Bonds, 2009 Series A, in an aggregate principal amount of approximately \$70.7 million for the purpose of (i) redeeming \$59.2 million of then outstanding 2001 Series A Bonds, (ii) financing the termination of a Swap Agreement, (iii) purchasing debt service reserve insurance and bond insurance under a financial guaranty policy, and (iv) paying the costs of issuance. The 2009 Series A bonds mature between 2011 and 2027 and bear interest at rates ranging from 3.00% to 5.50%.

Concurrent with the issuance of the 2009 Series A Bonds, a financial guaranty insurance policy was issued by Assured Guaranty Corp. (AGC). The policy provides maximum coverage for principal and interest payments on the 2009 Series A Bonds of approximately \$127.5 million. Coverage under the policy expires on May 15, 2027. In August 2016, AGC was rated by Moody's as A2. In July 2016, AGC was rated by S&P as A. Fitch no longer provides ratings of AGC.

Also concurrent with the issuance of the 2009 Series A Bonds, a Debt Service Reserve Fund Facility (the Facility) was issued by Assured Guaranty Municipal Corp., formerly Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides maximum coverage of approximately \$16.2 million. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2009 Series A Bonds are no longer outstanding. In August 2016, FSA was rated by Moody's as A2. In July 2016, FSA was rated by S&P as A. Fitch no longer provides ratings of FSA.

During March 2013, RICCA issued Refunding Revenue Bonds, 2013 Series A, in an aggregate principal amount of approximately \$37.2 million for the purpose of refunding the Authority's then outstanding Refunding Revenue Bonds, 2003 Series A, refunding a portion of RICCA's Refunding Revenue Bonds, 1993 Series B, and to pay costs of issuance. The 2013 Series A bonds bear interest at rates ranging from 2% to 5.25% and mature in varying installments beginning May 15, 2015 through May 15, 2020.

During April 2015, RICCA issued Refunding Revenue Bonds 2015 Series A in an aggregate amount of \$31.9 million for the purpose of refunding RICCA's then outstanding Refunding Revenue Bonds, 2005 Series A and refunding a portion of RICCA's then outstanding Refunding Revenue Bonds 1993 Series B and to pay costs of issuance. The final principal and interest payment for the 1993 Series B occurred on May 15, 2015. The 2015 Series A bonds mature between 2015 and 2023 and bear interest at rates ranging from 2.00% to 5.00%.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

At June 30, 2016, RICCA had no outstanding in-substance defeased debt. Outstanding indebtedness is collateralized by all rents receivable (if any) under a lease and agreement between RICCA and the State covering all property purchased by RICCA for the site, all other revenues and receipts from the project, a mortgage on constructed facilities, land financed by proceeds of the bonds, and amounts held in various accounts into which bond proceeds were deposited. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

Each of the bond resolutions contains certain restrictive covenants. During the year ended June 30, 2016, RICCA was unable to fund the Operating Reserve requirement of the restrictive covenants for the R.I. Convention Center and the DDC pursuant to the indentures. During the year ended June 30, 2016, RICCA was unable to fund the Renewal and Replacement requirement of the restrictive covenant for the DDC pursuant to the indenture.

RICCA and the R.I. Department of Administration have entered into agreements that provide for total appropriations from the RI Capital Plan (RICAP) for various purposes, including funding the Renewal and

Replacement requirement of the restrictive covenant for the DDC. Detailed information regarding these agreements is in RICCA's financial statements for the fiscal year ended June 30, 2016.

RICCA maintains an agreement with AMBAC Indemnity Corporation (AMBAC) under which AMBAC provides RICCA with surety bond coverage to meet Debt Service Reserve Fund requirements for the R.I. Convention Center. The surety bond provides a maximum coverage of \$15.2 million. Coverage under the surety bond expires on May 15, 2023. RICCA maintains additional agreements with AMBAC for the R.I. Convention Center under which AMBAC provides RICCA with separate surety bond coverages to meet Debt Service Reserve Fund and Operating Reserve Fund requirements, respectively. The surety bond relating to the Debt Service Reserve Fund requirements replaced mandated investments and provides a maximum coverage of approximately \$8.8 million. The surety bond relating to the Operating Reserve Fund requirements also replaced mandated investments and provides a maximum coverage of approximately \$3.9 million. Coverage under both surety bonds expires on May 15, 2027. The Debt Service and Operating Reserve Fund Facilities are required to have a credit rating in one of the three highest categories by Moody's and S&P. As of June 30, 2016, AMBAC's credit rating did not meet the aforementioned requirement, however, RICCA acquired from Assured Guaranty Corporation a surety bond that meets the Debt Service Reserve Fund requirement for the R.I. Convention Center.

RICCA is required by the Internal Revenue Service, as well as its various bond resolutions, to comply with certain tax code provisions and bond covenants. The most significant of these include the following: all debt payments must be current, annual reports and budgets must be filed with the trustee, and RICCA must comply with various restrictions on investment earnings from bond proceeds.

### **Discretely Presented Component Units**

#### *University of Rhode Island, Rhode Island College and the Community College of Rhode Island*

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the University and Colleges and the payment by the University and Colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

At June 30, 2016 revenue bonds outstanding were approximately as follows: URI - \$210.6 million, RIC - \$16.4 million, and CCRI - \$2.3 million.

#### *R.I. Airport Corporation*

Revenue bonds are issued by RICC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink facility.

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately \$224.6 million in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately \$40.7 million for the year ended June 30, 2016. Principal and interest payments for the year ended June 30, 2016 were approximately \$19.0 million.

In January 2016, RIAC issued \$27.7 million Series A Airport Revenue Refunding Bonds, \$27.0 Series B Airport Revenue Refunding Bonds and \$30.9 million Series C Airport Revenue Refunding Bonds, along with a cash paydown of \$8.3 million, to enable the defeasance of \$30.0 million in 2005 Series A General Airport Revenue Bonds, \$27.2 million in 2005 Series B General Airport Revenue Bonds and \$35.9 million in 2005



Series C General Airport Revenue Bonds. The 2016 Series A refunding issue matures monthly from 2016 through 2025 with interest coupons of 2.49%. The 2016 Series B refunding issue matures monthly from 2016 through 2030 with interest coupons of 3.69%. The series 2016 Series C refund issue matures monthly from 2016 through 2025 with interest coupons of 2.24 %. RIAC's defeasance of the 2005 Bonds resulted in economic present value savings of \$12.2 million or 13.11% of refunded bonds. The cash savings of the difference was approximately \$22.3 million. The refunding resulted in a deferred charge on refunding in the amount of approximately \$122 thousand, which is included in Deferred Outflows of Resources in the Statement of Net Position.

#### *I-195 Redevelopment District Commission*

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of \$38.4 million, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.466% at June 30, 2016) plus applicable margin, or 7.75%. Applicable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	<u>AA/Aa2 or Higher</u>	<u>AA-/Aa3</u>	<u>A+/A1</u>	<u>A/A2</u>	<u>A-/A3</u>
Applicable Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2016, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2016, the 2013 Series A Bonds bore interest at 1.466%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of \$960 thousand, for which the I-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019 and bear interest at the lesser of the 30-Day LIBOR (0.466% at June 30, 2016) plus the lesser of the two long-term bond ratings of the State from Moody's and S&P in the following table:

State Bond Rating (S & P/Moody's):	<u>AA/Aa2 or Higher</u>	<u>AA-/Aa3</u>	<u>A/A1</u>	<u>A/A2</u>	<u>A-/A3</u>
Applicable Taxable Margins 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

Based on the State's most recent bond ratings, the 2013 Series B bonds bore interest at 1.616% at June 30, 2016.

Proceeds from the 2013 Series A and B bonds were transferred by the I-195 RDC to the State.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the I-195 RDC, RICC, and a Bank entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the Bank. The Bank holds a mandatory tender option to sell the bonds to RICC on either April 1, 2023 or April 1, 2028.

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank \$658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR, to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds, through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.46655% at June 30, 2016), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2016, the fair value of the 2013 Series A and B Rate Cap Agreements was \$57,075, and is estimated as the amount the Bank would receive to terminate the Rate

Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counterparties.

Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly of the State for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the I-195 RDC.

The I-195 RDC has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense and credit facility funds established with the bond trustee.

To the extent that the I-195 RDC has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the I-195 RDC's payment obligations.

#### *R.I. Turnpike and Bridge Authority*

In 2016, with the approval of the State, the R.I. Turnpike and Bridge Authority (RITBA) issued 2016 Series A Motor Fuel Tax Revenue Bonds (2016 Bonds) in the amount of approximately \$117.6 million. The 2016 Bonds were sold at a premium of approximately \$16.3 million with total proceeds of approximately \$134.2 million, of which \$60 million was used to pay off a \$60 million Bond Anticipation Note (BAN) entered into in 2014. The remaining proceeds are to be used to fund future capital renovations and repairs. The Series 2016 Bonds are fixed-rate bonds bearing interest rates ranging from 3% to 5% payable semiannually on October 1 and April 1. Principal payments are due annually, and interest payments semiannually commencing October 2016, until maturity in 2040.

At June 30, 2016, RITBA had revenue bonds outstanding with principal amounts totaling approximately \$174 million.

#### *Other Component Units*

Nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

### **C. Notes Payable**

#### **Discretely Presented Component Units**

Notes payable (expressed in thousands) at June 30, 2016 are as follows:

Component Units -	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 1,128
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 13 years.	3,143
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.72% to 6.25% interest, payable through 2056.	109,717
	<u>113,988</u>
Less: current portion	<u>(79,384)</u>
	<u><u>\$ 34,604</u></u>



## D. Loans Payable

### Discretely Presented Component Units

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to \$42 million with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of RICC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2016, RIAC had approximately \$41.5 million in borrowings under this agreement.

The remaining balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately \$706 thousand and \$4.5 million, respectively.

## E. Obligations Under Capital Leases

### Primary Government

The State has entered into capital lease agreements, primarily Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2016 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30	Total
2017	\$ 36,298
2018	31,120
2019	31,232
2020	31,353
2021	29,104
2022 - 2026	86,146
2027 - 2031	10,751
Total future minimum lease payments	256,004
Amount representing interest	(46,704)
Present value of future minimum lease payments	<u>\$ 209,300</u>

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 5, Capital Assets.

In May 2016, the State financed the acquisition of a voting equipment system in the amount of approximately \$5 million under a capital lease agreement with a lender.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

Assets purchased with capital leases as of June 30, 2016 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 220,235	\$ 52,490	\$ 167,744
Building Improvement	83,820	20,586	63,234
Computer Systems	3,641	3,641	
Infrastructure	26,754	6,688	20,066
Construction in Progress	61,533		61,533
	<u>\$ 395,983</u>	<u>\$ 83,406</u>	<u>\$ 312,577</u>

## F. Defeased Debt

The State and its component units have defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements.

At June 30, 2016, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 347,730
RI Refunding Bond Authority	13,518
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	69,135
R.I. Commerce Corporation	2,940
R.I. Turnpike and Bridge Authority	6,255

## G. Conduit Debt

The R.I. Health and Educational Building Corporation has issued various series of revenue bonds, notes, and leases to finance capital expenditures for Rhode Island educational institutions, hospitals, and healthcare providers. The bonds, notes and leases are special obligations of the Corporation, payable from revenues derived solely from the institution for which the project was financed. The bonds, notes, and leases do not constitute a debt or pledge of the faith and credit of the corporation or the State, and accordingly are not reflected in the financial statements. The amount of conduit debt outstanding on June 30, 2016 was \$3.1 billion.

The R.I. Industrial Facilities Corporation and the R.I. Commerce Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2016 was \$42 million and \$991 million respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

## H. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of \$125 million of obligations by the RI Commerce Corporation (RICC), formerly known as the RI Economic Development Corporation.

In November 2010, RICC issued \$75 million of taxable revenue bonds under the JCGP. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming software development studio in Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, RICC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012. On August 8, 2012, a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

The total remaining debt service on the bonds will be approximately \$61.8 million. The maturity dates on the bonds range from 2016 to 2020 with maximum annual debt service of approximately \$12.5 million. The General Assembly made appropriations for fiscal years 2015 and 2016 to restore the shortfall in the Capital Reserve Fund. The fiscal year 2017 enacted budget includes an appropriation of approximately \$2.5 million which will be used to pay the principal and interest on the bonds due in fiscal year 2017.

In November 2012, RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RICC and various advisors to RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit. A settlement was reached with two of the defendants and, after expenses, a net recovery of approximately \$3.2 million was received in August of 2014. The net amount of the settlement was paid to the trustee for the benefit of the bondholders and was used to pay a portion of the fiscal year 2015 debt service.

In addition, subsequent to June 30, 2016, a Rhode Island Superior Court ruling upheld a settlement entered into by RICC with four named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al., pending in Providence Superior Court. The settlement will result in the gross payment of \$12.5 million. After payments of fees, costs and expenses, the net amount from the settlement is expected to be approximately \$9.9 million and will be paid to Bank of New York Mellon Trust Company, N.A., for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program series 2010 (38 Studios LLC Project)" bonds.

Also, on September 8, 2016, a Rhode Island Superior Court ruling upheld an initial settlement entered into by RICC with two named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al. pending in Providence Superior Court. The settlement will result in the gross payment of approximately \$25.6 million. After payment of fees, costs and expenses, the net amount from the settlement is expected to be approximately \$21.4 million and will be paid to Bank of New York Mellon Trust Company, N.A. for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program Series 2010 (38 Studios LLC Project)" bonds.

In October 2016, RICC reached a settlement with the officers of 38 Studios for approximately \$2,083,000. After related expenses, RICC netted \$2,069,000 to be paid to Bank of New York Mellon Trust Company, N.A. for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program Series 2010 (38 Studios LLC Project)" bonds.

The State has recorded a liability of \$38.1 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2016. This amount represents the current estimate of the amount of probable loss by the State and considers funds actually recovered as a result of the litigation discussed above. The \$38.1 million, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees and other costs, would be available to reduce amounts, if any, appropriated by the State to fund the Capital Reserve Fund and pay debt service on the bonds.

The General Assembly repealed the authority for RICC to guarantee further loans under the JCGP during the 2013 legislative session.

## **I. Pollution Remediation Liabilities**

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2016, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

## **J. Compensated Absences**

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits, subject to certain limitations, and vested sick leave credits that are payable at retirement, subject to certain limitations. Payment is calculated at the employees' current rate of pay.

## K. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

## L. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

## M. Other Long-Term Liabilities

*Governmental Activities* - the liabilities consist primarily of:

- Retainage related to infrastructure construction projects - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

*Component Units* – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

## Note 7. Net Position/Fund Balances

### Governmental Activities

#### *Restricted Net Position*

The Statement of Net Position-Governmental Activities reflects \$742.0 million of restricted net position, of which \$438.2 million is restricted by enabling legislation, including \$152.7 million of RI Capital Plan Funds. The remaining net position that is restricted by enabling legislation is included in the Employment Security Programs and Other categories on the Statement of Net Position. The principal component of the remaining balance of the restricted net position is unexpended bond proceeds.

**Governmental Funds – Fund Balances**

Governmental fund balance categories are detailed below (expressed in thousands):

## Governmental Funds - Fund Balance

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	\$	\$	\$ 174	\$ 174
Restricted for:				
Purposes specified by enabling legislation	133,193			133,193
RI Capital Plan			152,727	152,727
Debt Service		24,206	76,407	100,613
Capital Projects			72,015	72,015
Temporary Disability Insurance			152,285	152,285
Historic Tax Credit Redemption			59,959	59,959
Transportation-Infrastructure		72,613		72,613
Mission 360 Loan Program		1,776		1,776
Education			2,035	2,035
Other			664	664
Committed to:				
Transportation-Maintenance		39,063		39,063
Other	3,975		112	4,087
Assigned to:				
Subsequent Years Expenditures	132,153			132,153
Other	4,961			4,961
Unassigned:				
Budget Reserve and Cash Stabilization	191,581			191,581
Other	43,515	(1,519)		41,996
Totals	<u>\$ 509,378</u>	<u>\$ 136,139</u>	<u>\$ 516,378</u>	<u>\$ 1,161,895</u>

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the Reserve) within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2016, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in the Reserve in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of each chamber of the General Assembly, in the event of an emergency involving the health, safety or welfare of the citizens or to fund any unanticipated general revenue deficit caused by a general revenue shortfall in any given year.

Prior to fiscal year 2016 the Reserve was included in the Restricted category within fund balance. During fiscal year 2016 the State categorized the Reserve based on the guidance contained in GASB Statement No. 54 *Fund Balance Reporting and Government Fund Type Definitions* and the circumstances under which the Constitution and enabling laws allow the Reserve to be spent. The Reserve was reclassified to the Unassigned category of fund balance.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

See Note 1, Section S of these Notes for more information regarding the five categories of fund balance.

**Note 8. Taxes**

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred inflows of resources. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	\$ 1,211,678	\$ 1,211,419
General Business Taxes:		
Business Corporations	134,478	134,041
Public Utilities Gross Earnings	103,062	103,040
Financial Institutions	21,096	21,125
Insurance Companies	124,145	124,407
Bank Deposits	2,556	2,556
Health Care Provider Assessment	43,236	43,249
Sub-total - General Business Taxes	428,573	428,418
Sales and Use Taxes:		
Sales and Use	971,873	972,106
Motor Vehicle	39,692	39,692
Motor Fuel	(208)	(195)
Cigarettes	142,783	142,672
Alcoholic Beverages	19,630	19,630
Sub-total - Sales and Use Taxes	1,173,770	1,173,905
Other Taxes:		
Inheritance and Gift	70,029	70,024
Racing and Athletics	1,059	1,059
Realty Transfer	10,431	10,446
Sub-total - Other Taxes	81,519	81,529
Total - General Fund	2,895,540	2,895,271
Intermodal Surface Transportation Fund		
Gasoline	152,122	152,122
RI Highway Maintenance	32,671	32,671
Other Governmental Funds	186,283	186,283
Total Taxes	\$ 3,266,616	\$ 3,266,347



**Note 9. Transfers**

Transfers for the fiscal year ended June 30, 2016 are presented below (expressed in thousands):

	Transfers	Description
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 58,123	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,891	Administrative cost
Historic Tax Credit	12,615	Tax credits claimed
Bond Capital	305	Interest earnings transfer
RI Capital Plan	130	Capital expenditures
COPs	979	Current year excess income
Proprietary Funds		
Lottery	369,761	Net income transfer
Employment Security	167	Administrative cost
Total General	443,971	
Intermodal Surface Transportation		
Bond Capital	3,470	Infrastructure funding
RI Capital Plan	11,930	Infrastructure funding
Total Intermodal Surface Transportation	15,400	
Nonmajor Funds		
COPs		
General	1,135	Debt service
RI Capital Plan		
General	108,813	Transfer statutory excess in budget reserve
Bond Capital	1,717	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,533	Operating assistance
Total nonmajor funds	113,198	
Total Governmental Funds	572,569	
Proprietary Funds		
Lottery Fund		
RI Capital Plan	444	Capital improvement
Convention Center		
General	22,968	Debt service
RI Capital Plan	1,241	Capital improvement
Total Convention Center	24,209	
Employment Security		
General	9,449	Residual surcharge transfer
Total Proprietary Funds	34,102	
Total transfers primary government	\$ 606,671	

**Note 10. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$14 million for the fiscal year ended June 30, 2016. Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30	
2017	\$ 13,313
2018	10,994
2019	10,457
2020	7,675
2021	6,985
2022 - 2026	27,923
Total	<u>\$ 77,347</u>

The minimum payments shown above have not been reduced by any sublease receipts.

## Note 11. Commitments

### Primary Government

The primary government is committed at June 30, 2016 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects. A substantial portion of the cost of these projects will be reimbursed by federal grants, with the remainder principally financed with debt proceeds and Rhode Island Capital Plan Funds.

At June 30, 2016, the primary government had transportation infrastructure design, construction and other contract commitments of approximately \$400 million, and contract commitments for the design, construction and renovation of buildings of approximately \$154 million. At June 30, 2016, the primary government had software development and implementation contract commitments of approximately \$50 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2016. The State is also committed under multiple contracts for ongoing services which are not included in these commitment amounts.

The R. I. Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of \$7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, the MBTA, and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of \$200 million subject to a self-insured retention of \$7.5 million.

### Performance-based Agreements

The R.I. Commerce Corporation (RICC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3.7 million in the first five years and \$3.6 million in years 6 through 20. In the year ended June 30, 2016, \$2.9 million was paid to the developer.

RICC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid \$3.3 million of the debt on the related economic development revenue bonds in fiscal year 2016. The State has commitments relating to this debt through fiscal year 2027.

## ***Rhode Island Lottery – Master Contract Agreements***

### ***Gaming Systems Provider – International Game Technology (IGT)***

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

As consideration for this exclusive right, the gaming systems provider paid the Lottery \$12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider (\$4.4 million at June 30, 2016).

The contract mandates commission percentages ranging between 1.00% and 5.00% of lottery ticket sales and video lottery terminal income, depending on the amount of sales in each category.

On July 1, 2016, the Lottery entered into a Sixth Amendment to the Master Contract with IGT. Under this amendment, IGT will provide instant ticket printing services under the same terms and conditions as the Lottery's most recent contract, including pricing, through June 30, 2023. In addition, IGT will provide a redesigned, enhanced website. By mutual agreement, IGT will provide courier service for the delivery of instant ticket products, four licensed instant ticket games, and the new website at no cost to the Lottery (total value of \$2,691,000); and the Lottery will waive IGT's obligations under Section 6.3 of the Master Contract (minimum employment mandates) through December 31, 2017.

### ***Video Lottery Facility – UTGR, Inc. (Twin River)***

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc. (UTGR), the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term commenced on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River. In fiscal 2016, Twin River was authorized and issued approximately \$49 million in promotional points to facility patrons. The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for certain allowable marketing expenses.

Most recent statute and contract amendments require the Lottery to reimburse UTGR for allowable marketing expenses incurred between \$4 million and \$10 million, and between \$14 million and \$17 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.88% for 2016). The Lottery reimbursed UTGR for \$5,479,200 in marketing expenses for fiscal 2016.

### ***Video Lottery Facilities – Premier Entertainment II, LLC (Newport Grand)***

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which commenced on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. In addition, Newport Grand is entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses of Newport Grand.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2016, Newport Grand was authorized and issued approximately \$5.3 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses incurred between \$560,000 and \$1.4 million, at the same

percentage as the Lottery's share of net terminal income for the fiscal year (61.35% for 2016). The Lottery reimbursed Premier Entertainment II, LLC for \$472,655 in marketing expenses for fiscal 2016.

### Discretely Presented Component Units

#### *R.I. Airport Corporation*

As of June 30, 2016, RIAC is obligated for the completion of certain airport improvements under commitments of approximately \$13.9 million, which are expected to be funded from current available resources and future operations.

#### *R.I. Resource Recovery Corporation*

##### Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. As of December 2015, RIRRC began accepting waste in Phase VI.

A liability for closure and post-closure care of \$69.8 million as of June 30, 2016 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2016
Phase I	\$ 494,073
Phase II and III	8,178,942
Phase IV	10,088,063
Phase V	49,219,762
Phase VI	1,597,236
Other	215,274
	<u>\$ 69,793,350</u>

As of June 30, 2016, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	\$ 1,464,539	97.11%	3 months
Phase VI	\$ 81,742,801	1.96%	22.7 years

As of June 30, 2016 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in an \$11.1 million increase of the corresponding liability from \$85.4 million at June 30, 2015 to \$96.5 million at June 30, 2016 and was primarily attributable to improved leachate flow data.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted position held in trust in the statement of net position as of June 30, 2016 is \$47.0 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

The pollution remediation obligation for the year ended June 30, 2016 is as follows:

Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Current Portion
\$ 21,184,244	\$ 5,754,900	\$ 0	\$ 26,939,144	\$ 1,411,611

Superfund site:

In prior years, the EPA issued administrative orders requiring RIRRC to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27 million for remedial purposes. The balance of the trust fund totaled \$43.8 million as of June 30, 2016.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately \$26.9 million as of June 30, 2016.

*R.I. Turnpike and Bridge Authority*

During 2015, R.I. Turnpike and Bridge Authority entered into contracts totaling \$26.8 million for steel repairs and the placement of the median barrier on the Claiborne Pell Bridge, which is expected to take over a year to complete. As of June 30, 2016, remaining commitments on these contracts total \$8.6 million.

*R.I. Public Transit Authority*

The R.I. Public Transit Authority is committed under various contracts in the amount of \$15.5 million at June 30, 2016.

*University of Rhode Island, Rhode Island College, and the Community College of Rhode Island*

At June 30, 2016, the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island had outstanding commitments for the construction and renovation of their buildings of approximately \$27 million, \$33 million, and \$5 million, respectively.

*Other Component Units*

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

**Note 12. Contingencies****Litigation - Primary Government**

The State, its departments, agencies, officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a material loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Significant specific litigation is discussed below.

## Challenges to Pension Reforms

Various legal challenges to enacted pension reforms initiated in recent years were settled in 2015. To carry out the settlement, the Rhode Island General Assembly passed legislation amending the Rhode Island Retirement Security Act (RIRSA), which was enacted into law on June 30, 2015 and which became generally effective July 1, 2015 (New RIRSA). On July 8, 2015, the Court entered final judgment.

Eight appeals were filed with respect to the final judgement entered in Rhode Island Public Employees' Retiree Coalition v. Raimondo, and one appeal was filed with respect to the judgement in Clifford v. Chafee. Three of the nine appeals were dismissed by the Supreme Court. The State intends to vigorously defend the remaining six appeals. The appeals in the case do not affect the implementation of New RIRSA.

A lawsuit commenced by the Rhode Island Troopers Association challenging the constitutionality of the RIRSA (prior to the amendments) remains outstanding. The benefits at issue are those to be paid from the State Police Retirement Benefits Trust. There is no trial date set.

On March 16, 2016, the plaintiffs in Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee and International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee filed a new suit in the United States District Court for the District of Rhode Island captioned Cranston Firefighters, IAFF Local 1363 AFL-CIO v. Raimondo. Through that action, the plaintiffs challenge the constitutionality of RIRSA and New RIRSA, not under the Rhode Island Constitution, as they had alleged in the Superior Court, but under the United States Constitution. Plaintiffs additionally seek a declaration concerning the effect of the class action on retirees. The State has moved to dismiss all counts in the Plaintiffs complaint. A hearing was held on that motion and the parties await a decision from the Court.

The State intends to vigorously defend these matters and cannot presently estimate the potential loss, if any.

## United States v. RIDOC

The Department of Justice (DOJ) filed a federal civil rights action against the RI Department of Corrections (DOC or the State) on February 10, 2014 alleging a disparate impact in the selection process of entry level corrections officers for the time period of 2000 through 2014. The DOJ claims that the DOC has engaged in an unintentional pattern or practice of employment discrimination against African Americans and Hispanics through use of testing procedures used during the selection process for admission to the Training Academy for entry-level Correctional Officer positions. The DOJ is seeking injunctive relief, which would enjoin the DOC from using these examinations in the screening and selection process, and (among other measures) may seek "make whole" relief for individuals who were not hired as a result of the use of these examinations. This may involve relief in the form of back pay, seniority hiring, benefits, and retroactive hiring reaching back to 2000. The State's Motion to Dismiss the individual "make whole" relief sought by the United States and limit the State's potential liability was denied. The State's interlocutory appeal was denied by the District Court. The parties have had settlement/mediation discussions that, based upon the request of the United States, are expected to resume. Fact discovery has closed; and, the case is now nearing the end of expert discovery that is set to close in April 2017. Since the case involves disputed facts, it is anticipated that a trial on the claim may be required in 2017 to resolve the issue of the State's liability after the close of discovery.

## Andrew C. (Previously Cassie M) v. Raimondo, EOHHS, and DCYF, USDC

Children's Rights Incorporated (CRI) brought suit against the Governor, Secretary of EOHHS, and the Director of DCYF in their official capacities (the State) in 2007. The then R.I. Child Advocate sought to put the State's foster care program administered by DCYF and EOHHS under federal court supervision through a class action seeking prospective relief. The State's second Motion to Dismiss was granted in part and denied in part in 2011. The U.S. District Court ordered mediation in the fall of 2011 and again in 2013 that was not successful. After mediation failed, the Court determined that, instead of considering dispositive motions, the Court would hold a trial on the claims of the named Plaintiffs before reaching the issue of whether the case should continue by certifying a class. The trial of the individual claims of two remaining named Plaintiffs began on November 12, 2013. On January 9, 2014, after a sixteen day trial, Plaintiffs rested and the State promptly moved the Court to enter judgment on the record for all claims in the case. On April 30, 2014, the Court issued a Decision granting the State's motion, and Judgment entered on the same day in favor of the State dismissing the case. The First Circuit Court of Appeals reversed the dismissal and returned the case to the Court.



Children's Rights Inc. has added new Plaintiff children and others have been dismissed from the case as their claims are moot. The named Plaintiffs have filed their Fourth Amended Complaint. Fact Discovery has commenced; however, the proceedings before the District Court have been stayed pending the outcome of an ongoing mediation. If mediation is unsuccessful, the State expects to resume fact and expert discovery leading to the issue of class certification.

**The State of Rhode Island Department of Revenue and the Rhode Island Department of Administration v. Hewlett-Packard State & Local Enterprise Services, Inc.**

On November 1, 2016, the State of Rhode Island Department of Revenue and the Rhode Island Department of Administration (the "State") commenced suit against Hewlett-Packard State & Local Enterprise Services, Inc. ("HPE") claiming, *inter alia*, that HPE had contracted to deliver to the State a fully functional computer system for the Rhode Island Division of Motor Vehicles on or before September 28, 2016 and that HPE breached the contract when it failed to deliver a fully functional computer system on time. The State also moved for a temporary restraining order, which the Court granted, enjoining HPE from ceasing work on the project. A preliminary injunction hearing is scheduled for January 5 – 12, 2017.

On December 5, 2016, HPE filed a counterclaim through which it alleges that the State owes it in excess of \$14,000,000, plus interest and costs for work HPE performed in developing the computer system. HPE asserts claims for breach of contract, breach of the implied covenant of good faith and fair dealing, breach of implied contract, quantum meruit and promissory estoppel. The State has moved for judgement on the pleadings with respect to HPE's claims for breach of implied contract, quantum meruit and promissory estoppel and the State intends to vigorously defend against HPE's claims of breach of contract and breach of the implied covenant of good faith and fair dealing.

**RI Department of Transportation (RIDOT) Consent Decree with the EPA**

The RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and is was finalized on December 22, 2015. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, RIDOT has paid a civil penalty in the amount of \$315 thousand and complete two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of \$77 thousand and \$158 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT's failure to meet specific compliance deadlines.

**Tobacco Master Settlement Agreement Related Matters**

The State is a party to an arbitration proceeding brought by tobacco companies concerning the diligent enforcement of the escrow statute enacted in connection with the Tobacco Master Settlement Agreement (the "MSA"). The MSA is an agreement entered into between a number of states, including Rhode Island, and major tobacco companies in settlement of certain litigation. Additional information about these proceedings and other matters related to the outstanding debt of the Tobacco Settlement Financing Corporation, a blended component unit, are discussed below under the heading "**Tobacco Settlement Financing Corporation**".

**Other**

The State is vigorously contesting all litigation matters including those detailed above. As of this date it is not possible to determine the outcome of certain proceedings and their overall impact on the State's financial statements. The State is currently of the opinion that current litigation matters are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.



**Tobacco Settlement Financing Corporation**

According to the Master Settlement Agreement (“MSA”), for any year in which the Participating Manufacturers (PMs) suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment (“NPM Adjustment”), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a “significant factor” contributing to the market share loss (“Significant Factor Proceeding”); and (2) the State is found to not have diligently enforced its statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be Significant Factor Proceedings for calendar years 2007 through 2014.

From April 2005 through April 2016, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The total share of these disputed payments applicable to Rhode Island at June 30, 2016 (as calculated by the Independent Auditor) is approximately \$50.7 million. This amount assumes the calculation by the Independent Auditor is correct. Thus, this calculation may be subject to recalculation and modification in the future.

In conjunction with its March 2015 bond issuance, the Corporation agreed with the Series 2007 Majority Interest Holder, on behalf of the Series 2007 bondholders, that to the extent that any funds on deposit in the disputed payments account on March 19, 2015 are received subsequently, the funds will be shared by the Corporation and the State in the following percentages: 70% to the Corporation and 30% to the State. It was further agreed that any such funds received by the Corporation will be used to retire Series 2007 bonds.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for calendar year 2003 (“2003 Dispute”). Rhode Island’s diligence was ultimately not contested by the PMs after discovery closed during the arbitration related to the 2003 Dispute. As a result, Rhode Island received its share of DPA monies for the 2003 Dispute. In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories (“Term Sheet States”) in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet (“Term Sheet”) with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award (“Award”) that incorporated certain provisions of the Term Sheet. Also, the Award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments.

Twenty-six (26) MSA States and Territories (“States and Territories”), including Rhode Island, have not accepted the terms of the Term Sheet or have not settled in some other fashion, so the NPM Adjustment disputes between these States and Territories and PMs remain unresolved. Future NPM Adjustments could be as large as or exceed the reported potential \$1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future.

Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

An arbitration to resolve the issue of Diligent Enforcement to the 2004 NPM Adjustment Dispute has commenced. Although Rhode Island was ultimately not contested by the PM’s in the 2003 Dispute, there is no guarantee the 2004 Dispute will have the same result. If Rhode Island’s diligence is contested by the PMs and is found to be non-diligent by an arbitration panel, Rhode Island risks losing up to its entire MSA payment for 2004, which is roughly \$45 million. Similar arbitrations will occur for each succeeding year, putting all MSA payments received by Rhode Island at risk. Any adverse judgement by an arbitration panel would be

deducted from future MSA payments and would impair the Corporation's ability to cover annual debt service payments on outstanding bonds.

In addition to NPM Adjustment arbitration, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to service its debt obligations.

### **Lottery**

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide and local referendum included on the ballot on November 8, 2016 for the relocation of Newport Grand to Tiverton, RI was approved by the voters. This new gaming facility is widely considered to be better positioned to compete with future gaming competition expected in nearby Massachusetts.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

### **Federal Grants**

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2015 was issued in March 2016. That report identified approximately \$1.4 million in questioned costs relating to the primary government.

The State has recently implemented a new integrated eligibility and benefits administration system known as the Unified Health Infrastructure Project (UHIP) for social service programs (e.g., Medicaid, SNAP, TANF, and Child Care). System development has largely been funded with federal grants. Implementation issues have resulted in increased oversight from the federal grantor agencies and requests for corrective action plans to address these issues.

In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the

issue is not being appealed or the right of appeal has been exhausted. The fiscal 2016 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

### **Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget.

#### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had \$65.7 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to \$24.4 million on June 30, 2016. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

#### *R.I. Commerce Corporation (RICC)*

At June 30, 2016 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total \$24.1 million at June 30, 2016.

### **Component Units**

#### *R.I. Commerce Corporation (RICC)*

On March 7, 2016, the Securities and Exchange Commission (SEC) filed a Complaint in the United States District Court of Rhode Island against RI Commerce Corporation and four other named defendants. The SEC is alleging that RI Commerce Corporation made materially misleading disclosures in connection with the issuance of bonds issued under the JCGP, in violation of Section 17(a)(2) and 17(a)(3) of the Securities Act. The SEC is seeking injunctive and monetary relief. RI Commerce Corporation is contesting the case vigorously. The likelihood of an unfavorable outcome and the amount or range of potential loss to RI Commerce Corporation, if any, is unknown.

#### *R.I. Industrial-Recreational Building Authority (RIIRBA)*

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of \$60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. RIIRBA must then request appropriations of the General Assembly for any losses in excess of insured amounts. RIIRBA's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2016, RIIRBA has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by RIIRBA at June 30, 2016 are \$9.3 million.

RIIRBA insures a bond issued by RIIFC on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity defaulted on its payments to the bond holder and RIIRBA assumed responsibility for making the debt payments. The payments are being made by first exhausting RIIRBA's available financial resources. At June 30, 2016, RIIRBA has determined that it is likely that it will incur a loss under the insured commitment. RIIRBA has accrued an insured commitment payable of \$1.9 million equal to the estimated loss at June 30, 2016. No request has been made to the General Assembly at June 30, 2016 for appropriations to satisfy any liability under the insurance guarantee.

*R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

As of June 30, 2016, RIHMFC may borrow up to a maximum of \$90 million under various revolving loan agreements expiring between August 2016 and January 2017. Borrowings under the lines of credit are payable on demand and are unsecured.

RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2016 is \$103.9 million.

*Other Component Units*

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

**Note 13. Employer Pension Plans****A. Summary of Employer Plans**

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below:

	Plan	Plan type	Covered employees	FY 2016 pension expense	Net pension liability at June 30, 2015 measurement date
A	<b>Employees' Retirement System (ERS)</b>	Cost-sharing multiple-employer defined benefit plan – advance funded through a trust	State employees excluding state police and judges		
			Governmental activities	\$216,904,000	\$1,767,094,000
			Business-type activities	\$1,896,000	\$15,074,000
			<i>Special funding – teachers - state share (see Note Section 13-E)</i>	\$132,183,000	\$1,117,395,000
B	<b>State Police Retirement Benefits Trust (SPRBT)</b>	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1, 1987	\$3,305,000	\$6,001,000
C	<b>Judicial Retirement Benefits Trust (JRBT)</b>	Single-employer defined benefit plan – advance funded through a trust	Judges appointed after December 31, 1989	\$1,740,000	\$3,575,000
D	<b>RI Judicial Retirement Fund Trust (RIJRFT)</b>	Single-employer defined benefit plan – advance funded through a trust	Covers 7 judges appointed prior to January 1, 1990	\$1,286,000	\$18,326,000
E	<b>State Police Non-Contributory Retirement Plan (SPNCRP)</b>	Single employer defined benefit – non trustee – pay-as-you-go plan	State Police hired before July 1, 1987	\$30,024,000	\$266,091,000
F	<b>Judicial Non-Contributory Retirement Plan (JNCRP)</b>	Single employer defined benefit – non trustee – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	\$4,385,000	\$52,018,000
	<b>Totals</b>			<u>\$391,723,000</u>	<u>\$3,245,574,000</u>
G	<b>LIUNA – union plan for members of the LIUNA bargaining units</b>	Cost-sharing multiple employer defined benefit plan – “Taft-Hartley” non-governmental plan	Members of the LIUNA bargaining unit	Not applicable (see note below)	Not applicable (see note below)
H	<b>ERS – Defined Contribution Plan</b>	Multiple employer defined contribution plan	State employees subject to the “hybrid” defined benefit/defined contribution plan provisions	\$4,418,000	Not applicable
I	<b>FICA Alternative Retirement Income Security Program</b>	Single employer defined contribution plan	State employees not eligible to participate in the State’s other defined benefit plans	Not applicable	Not applicable

Employer pension expense and related liabilities and deferred inflows or resources/deferred outflows of resources for defined benefit plans A-D as identified above are recognized in the financial statements based on the provisions of GASB Statement No. 68.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans E and F as identified above are recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. As there is no required employer contribution for covered employees, no employer pension expense is reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Income Security Program.

Plan membership, based on the June 30, 2014 actuarial valuations, is summarized in the table below:

	Retirees and beneficiaries	Terminated plan members entitled to but not yet receiving benefits	Active Vested	Active Non-vested	Total by Plan
ERS-State Employees	11,103	2,898	8,652	2,649	25,302
JRBT	13		18	38	69
RIJRFT			7		7
SPRBT	26	25	42	208	301
JNCRP	57				57
SPNCRP	274				274

## B. Defined Benefit Plan Descriptions – Advance Funded Plans

**EMPLOYEES' RETIREMENT SYSTEM (ERS)** - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

**Plan members** - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns as well as in certain charter schools. Membership in the plan is mandatory for all covered state employees and teachers. General officers may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and the Narragansett Bay Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

**Plan vesting provisions** – after five years of service.



**Retirement eligibility and plan benefits** – are summarized in the following table:

Schedule	Schedule Criteria	Retirement eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year  Effective July 1, 2015: for members with 20 years or more of service as of July 1, 2012: 2% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(AB)	Completed 10 years of service on or before July 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012:  Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter  Effective July 1, 2012: 1.0% per year	80% of final average (5 consecutive highest years) earnings
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 and 5 years of contributory service	1.6% for each of first ten years  Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years) and 38 years of service



State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. Vested members who have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first \$25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

**Disability retirement provisions** - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

**Other plan provisions** - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

**JUDICIAL RETIREMENT BENEFITS TRUST (JRBT)** - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

**Plan members** – The plan covers all Judges appointed after December 31, 1989.

**Retirement eligibility and plan benefits** – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above, except salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation.  Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation.  Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first \$25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

**STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT)** - Effective July 1, 2012, under the direction of Rhode Island General Law 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

**Plan members** – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 who do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded

on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

**Retirement eligibility and plan benefits** – The plan generally provides retirement benefits for members who have served as a justice of the Supreme Court, the Superior Court, the Family Court, the District Court, or any combination of them for 20 years and have reached the age of 65 years, or have served 15 years, and reached the age of 70 years may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members of the Traffic Tribunal who served as a justice for 20 years, or have served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any Traffic Tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first \$25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

**STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT)** - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

**Plan members** – The plan covers all State Police and Superintendents hired after July 1, 1987.

**Retirement eligibility and plan benefits** – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the State Police, other than the Superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 State Police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State Police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-

year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first \$25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

**Disability retirement provisions** - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

### C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below.

#### *Basis of Accounting*

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Disclosures regarding methods used to value investments and investment expenses are included in Note 2C, Pension Trusts.

### D. Defined Benefit Plan Descriptions – Non-Contributory (pay-as-you-go) Pension Plans

In addition to the defined benefit plans administered by the ERS, the State also administers two other non-trusted single employer defined benefit pension plans that are closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The State Police Non-Contributory Retirement Plan (SPNCRP) provides retirement benefits to members of the State Police hired before July 1, 1987. Both plans were created by statute and have historically been funded by the State on a pay-as-you-go basis. Accordingly, no assets have been accumulated to pay benefits under these two non-trusted plans.

Pension benefits paid under the JNCRP and SPNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years, or at age 70 with 15 years of service. For SPNCRP members, in general, benefits are equal to 50% of salary after 20 years of service; for those who retired after July 1, 1972 an additional 3% annual increment is added until attaining a maximum benefit of 65% of salary after 25 years of service. Both plans have provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

## E. Special Funding Situation – ERS Plan – Teachers

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2015 is approximately \$2.8 billion and the State's share of the net pension liability is approximately \$1.1 billion. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2016 as Net Pension Liability-Special Funding Situation. The State's proportion for the special funding situation for the teachers covered in the ERS Plan was 40.59 percent, a decrease of 0.09 percent since the prior reporting period. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

## F. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal year 2016 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2013. The fiscal year 2016 actuarially determined contribution for the Judicial Retirement Fund Trust was also based on the actuarial valuation of that plan performed as of June 30, 2013. However, while members contribute to the RIJRFT, the State as employer, has not opted to make contributions. The non-contributory judges (JNCRP) and State Police (SPNCRP) plans are financed on a pay-as-you-go basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2016 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	JNCRP	SPNCRP
Contribution rate:						
State	23.64%	26.80%	\$1,512	17.22%		
Plan members	3.75% and 11.00%	8.75% and 12.00%	8.75% and 12.00%	8.75%		
State contribution for teachers	8.98% to 9.41%					
Contributions made for state employees	\$144,696		\$140	\$4,005	\$5,967	\$17,501
Contribution made for teachers	\$87,998					

\*- Actuarially determined contribution not expressed as a rate.

**ERS Plan Supplemental Contributions** - The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2016, no contribution to the System was required in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of \$408 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 40.7%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

### G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System – a multiple employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2015. The State's proportion for the ERS Plan for State employees was 88.96 percent, a decrease of 0.03 percent since the prior reporting period.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2015 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

<b>Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees</b>		\$	1,986,428
<i>Less portion attributable to other entities:</i>			
Enterprise Fund - Rhode Island Lottery		\$	(15,074)
Discretely Presented Component Units			
University of Rhode Island	\$	113,016	
Rhode Island College		39,783	
Community College of RI		29,073	
RI Division of Higher Education Assistance		2,954	
RI Commerce Corporation		271	
RI Airport Corporation		2,226	
			(187,323)
Related organization - Narragansett Bay Commission			(16,937)
<b>ERS - Net Pension Liability - Governmental Activities</b>		\$	1,767,094
<b>Net Pension Liability - Single Employer Defined Benefit Pension Plans</b>			
JRBT			3,575
RIJRFT			18,326
SPRBT			6,001
JNCRP			52,018
SPNCRP			266,091
<b>Total Net Pension Liability</b>		\$	2,113,105



Further details regarding the State's total pension liability and net pension liability for the single employer trustee defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2015 is presented below:

	JRBT	RIJRFT	SPRBT
Total pension liability	\$ 63,085	\$ 18,812	\$ 120,907
Plan fiduciary net position	59,510	486	114,906
Net pension liability	\$ 3,575	\$ 18,326	\$ 6,001
Plan fiduciary net position as a percentage of total pension liability	94.3%	2.6%	95.0%

#### a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2014 and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Valuation Date	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2015	6/30/2015
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
<u>Assumptions</u>							
Investment Rate							
of Return	7.50%	7.50%	7.50%	3.80%	7.50%	3.80%	3.80%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.50%	3.50%	3.75% to 11.75%	N/A	N/A
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Mortality	Male employees: 115% of RP-2000 Combined Healthy For Males with White Collar adjustments, projected with Scale AA from 2000.  Female employees: 95% of RP-2000 Combined Healthy For Females with White Collar adjustments, projected with Scale AA from 2000.  Male and Female Teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.						
Cost of Living Adjustments	The COLA calculation has two components: 1) 50% of the COLA is calculated by taking the previous 5 year average investment return, less 5.5% with a maximum of 4% and 2) 50% is calculated based on previous year's CPI-U(maximum of 3%) for a total maximum COLA of 3.5%.  The COLA is to be applied to the first \$25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement, except for State Police for which the COLA is delayed until the later of age 55 or three years after retirement.  A COLA of 2% is assumed once every four years until the plan achieve 80% collective funded status, in accordance with the law. It is assumed the plan will not achieve the targeted 80% funded status for 15 years.						

The actuarial assumptions used in the June 30, 2014 valuations rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of June 30, 2013.



**Factors affecting trends for amounts related to the net pension liability**

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumption for the RIJRF plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Asset Class	Target allocation	Long-term expected real rate of return
Global Equity:	38%	
U.S. Equity		6.93%
International Developed		7.32%
International Emerging Markets		9.52%
Equity Hedge funds	8%	3.98%
Private Equity	7%	9.99%
Core Fixed Income	15%	2.18%
Absolute Return Hedge Funds	7%	3.98%
Infrastructure	3%	5.70%
Real Estate	8%	4.85%
Other Real Return Assets:	11%	
Master Limited Partnerships		4.51%
Credit		4.51%
Inflation Linked Bonds		1.24%
Cash, Overlay and Money Market	3%	0.78%
	100%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

**b. Discount rate**

The discount rate used to measure the total pension liability of the plans was 7.5 percent for all plans except the RIJRFT, JNCRP and SPNCRP plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT, JNCRP and SPNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (3.8% at June 30, 2015) was applied to all periods of projected benefit payments to determine the total pension liability.

**c. Sensitivity of the net pension liability (asset) to changes in the discount rate**

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5% (for all plans except the RIJRFT, JNCRP and SPNCRP), as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT, JNCRP and SPNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.8% at June 30, 2015 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

	1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	\$ 2,190,813	\$ 1,767,095	\$ 1,420,222
ERS - Teachers (State share)	\$ 1,401,205	\$ 1,117,395	\$ 885,057
JRBT	\$ 10,075	\$ 3,575	\$ (1,743)
SPRBT	\$ 18,345	\$ 6,001	\$ (4,098)

	1.00% Decrease (2.80%)	Municipal Bond Index Discount Rate (3.80%)	1.00% Increase (4.80%)
RIJRFT	\$ 20,197	\$ 18,326	\$ 16,796
JNCRP	\$ 56,089	\$ 52,018	\$ 48,475
SPNCRP	\$ 300,153	\$ 266,091	\$ 238,200

**H. Changes in the Net Pension Liability**

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRF	SPRBT	JNCRP*	SPNCRP*
<b>Total Pension Liability</b>					
Service Cost	\$ 3,024	\$ 416	\$ 4,198	\$ -	\$ -
Interest	4,540	673	8,540	2,172	10,503
Benefit changes	253	-	1,170	-	-
Differences between expected and actual experience	(2,857)	(642)	(3,522)	328	3,565
Changes of assumptions	-	859	-	1,885	15,955
Benefit payments	(1,809)	-	(2,497)	(6,020)	(17,512)
<b>Net change in Total Pension Liability</b>	<b>3,151</b>	<b>1,306</b>	<b>7,889</b>	<b>(1,635)</b>	<b>12,511</b>
<b>Total pension liability - beginning</b>	<b>59,934</b>	<b>17,506</b>	<b>113,018</b>	<b>53,653</b>	<b>253,580</b>
<b>Total pension liability - ending</b>	<b>\$ 63,085</b>	<b>\$ 18,812</b>	<b>\$ 120,907</b>	<b>\$ 52,018</b>	<b>\$ 266,091</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 2,709	\$ -	\$ 3,433	\$ -	\$ -
Employee contributions	1,121	159	1,732	-	-
Net investment income	1,368	9	2,656	-	-
Benefit payments	(1,809)	-	(2,497)	-	-
Administrative expenses	(51)	-	(100)	-	-
Other	-	-	4	-	-
<b>Net change in fiduciary net position</b>	<b>\$ 3,338</b>	<b>\$ 168</b>	<b>\$ 5,228</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 56,172</b>	<b>318</b>	<b>109,678</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 59,510</b>	<b>\$ 486</b>	<b>\$ 114,906</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Pension Liability</b>	<b>\$ 3,575</b>	<b>\$ 18,326</b>	<b>\$ 6,001</b>	<b>\$ 52,018</b>	<b>\$ 266,091</b>

\*These two plans are non-trusted plans which historically have been funded on a pay-as-you-go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

**I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources****Employees' Retirement System of Rhode Island**

For the fiscal year ended June 30, 2016 the State recognized pension expense of \$216.9 million related to State employees who are covered by ERS. In addition, it recognized an Education expense of \$132.2 million in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

	State Employees	Teachers	Totals
<u>Deferred Outflows of Resources</u>			
State contributions subsequent to the measurement date	\$ 144,696	\$ 87,998	\$ 232,694
Totals	<u>\$ 144,696</u>	<u>\$ 87,998</u>	<u>\$ 232,694</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$ 20,444	\$ 7,276	\$ 27,720
Changes of assumptions	13,295	30,039	43,334
Net difference between projected and actual earnings on pension plan investments	1,455	843	2,298
Changes in proportion and differences between employer contributions and proportionate share of contributions	428	2,148	2,576
Totals	<u>\$ 35,622</u>	<u>\$ 40,306</u>	<u>\$ 75,928</u>

The \$144.7 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. In addition, the \$88.0 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

	State Employees	Teachers
Year ended June 30:		
2017	\$ (17,106)	\$ (11,939)
2018	(17,106)	(11,939)
2019	(17,106)	(11,939)
2020	15,696	9,329
2021	-	(6,411)
Thereafter	-	(7,407)
	<u>\$ (35,622)</u>	<u>\$ (40,306)</u>

**Other Single Employer Pension Plans**

For the fiscal year ended June 30, 2016 the table below provides information about pension expense recognized for each of the State's five single employer plans (expressed in thousands):

<u>Plan</u>	<u>Annual Pension Expense</u>
JRBT	\$ 1,740
RIJRFT	1,286
SPRBT	3,305
JNCRP	4,385
SPNCRP	30,024

At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP	Totals
<u>Deferred Outflows of Resources</u>						
Employer contributions subsequent to the measurement date	\$ 2,410	\$ 140	\$ 4,005	\$ 5,967	\$ 17,501	\$ 30,023
Change of assumptions	-	53	-	-	-	53
Net difference between projected and actual earnings on pension plan investments	162	4	279	-	-	445
Totals	<u>\$ 2,572</u>	<u>\$ 197</u>	<u>\$ 4,284</u>	<u>\$ 5,967</u>	<u>\$ 17,501</u>	<u>\$ 30,521</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 2,390	\$ 40	\$ 3,196	\$ -	\$ -	\$ 5,626
Change of assumptions	443		294	-	-	737
Totals	<u>\$ 2,833</u>	<u>\$ 40</u>	<u>\$ 3,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,363</u>

The amount of \$30.0 million reported as deferred outflows of resources, related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date, will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ending June 30,	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
2017	\$ (722)	\$ 14	\$ (645)	\$ -	\$ -
2018	(722)	1	(645)	-	-
2019	(722)	1	(645)	-	-
2020	16	1	772	-	-
2021	(465)		(361)	-	-
Thereafter	(56)		(1,687)	-	-
	<u>\$ (2,671)</u>	<u>\$ 17</u>	<u>\$ (3,211)</u>	<u>\$ -</u>	<u>\$ -</u>

## J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the LIUNA National Pension Fund (the Plan), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2016, 843 employees of the State were members of the Plan.

All employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Plan by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at [www.lnipf.org](http://www.lnipf.org).

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute \$0.57 to \$1.29 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2016. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

## K. Defined Contribution Plan - ERS

**Plan Description** - Employees participating in the Employees Retirement System (ERS) defined benefit plan with less than 20 years of service as of June 30, 2012, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

**Plan contributions** - Members contribute 5% of their annual covered salary and employers contribute 1% to 1.5% of annual covered salary, depending on years of service as of June 30, 2012. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly.

The State contributed and recognized as pension expense \$4.4 million for the fiscal year ended June 30, 2016, equal to 100% of the required contributions for the fiscal year.

**Plan vesting and contribution forfeiture provisions** - The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

**Retirement benefits** – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://www.ersri.org>.

#### L. Defined Contribution Plan - FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the FARP) is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), which also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-CREF serves as record keeper for the FARP, and FARP assets are held by J.P. Morgan as investment custodian.

**Plan members** – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

**One-time opt-out provision** – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

**Plan vesting provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The State does not make matching contributions to the FARP.

**Member accounts** – Each member's account is credited with the member's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

**Contributions** – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

**Investment options** – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

**Retirement benefits** – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59 ½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

#### M. Other Pension Plans – Component Units

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts



under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately \$17.4 million during the year ended June 30, 2016.

The Rhode Island Public Transit Authority has two single employer defined benefit pension plans that cover eligible employees. The first plan covers those in Amalgamated Transit Union (ATU) Division 618, ATU Division 618A, and Laborers' International Union (LIU) Local 808. The second plan covers all other employees who work more than 1,000 hours per year. The plans provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of normal retirement age (62, or if later, upon completion of 5 years of service). Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. Employees are required to contribute 3% of their base salary to their respective plan each year until the earlier of the participant's normal retirement date or termination of service. The remaining contributions to the plan are made by the Authority. At June 30, 2016 the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of \$52 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2016. For the fiscal year ended June 30, 2016 pension expense of \$6.9 million was recorded related to the plans. Other information about the plans can be found in the audited financial statements of RIPTA which are available at [www.ripta.com](http://www.ripta.com).

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple employer pension plan for all employees, who were hired before January 1, 2006 who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2016, the plan's total pension liability exceeded the plan's fiduciary net position by \$2 thousand. Accordingly, a net pension liability in that amount has been recorded as of that date. For the fiscal year ended June 30, 2016 pension expense of \$117 thousand was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at [www.commerceri.com](http://www.commerceri.com).

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

#### **Note 14. Other Post-Employment Benefits**

##### **A. Plan Descriptions**

The Rhode Island State Employees' and Electing Teachers OPEB System (the System) acts as a common investment and administrative agent for post-employment health care benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units or related organizations:  
Narragansett Bay Commission, RI Airport Corporation and RI Commerce Corporation
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Education (BOE)

Members of the System must meet the eligibility and service requirements set forth in RI General Laws or other governing documents. Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds.

The OPEB Trust Funds are reported using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned or become measureable.

Additional disclosure regarding the methods used to value investments and investment expenses are included in Note 2D, OPEB Trust Funds.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

A summary of the principal provisions of the plans follows:

	State Employees and Teachers	Judicial	State Police	Legislators	BOE Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOE Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible retirees access their benefits through a Health Reimbursement Account that the OPEB Trust makes a monthly deposit to based on years of service.	May purchase active employee plan for member and dependents until age 65.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until they are Medicare eligible.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

## B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. The State and other participating employers are required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2016, the State and other participating employers paid \$53.4 million into the plans.

**C. Annual OPEB Cost and Net OPEB Obligation**

The participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

	State Employee	Teachers	Judicial	State Police	Legislators	BOE
Date of Actuarial Valuation	06/30/13	06/30/13	06/30/13	06/30/13	06/30/13	06/30/13
Annual required contribution as a percent of payroll	5.97%	N/A	0.00%	33.39%	1.53%	3.11%
Annual required contribution	\$ 40,709	\$ 2,321	\$ 0	\$ 6,823	\$ 27	\$ 3,558
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	426	0	0
Less: Adjustment to ARC	0	N/A	0	443	0	0
Annual OPEB cost	40,709	2,321	0	6,806	27	3,558
Participating State and/or other employer contributions	40,709	2,321	0	6,823	27	3,558
Decrease in OPEB obligation	0	0	0	(17)	0	0
Net OPEB obligation at beginning of year	0	0	0	8,520	0	0
Net OPEB obligation at end of year	\$ 0	\$ 0	\$ 0	\$ 8,503	\$ 0	\$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2014	\$ 49,072	100.00%	-
	2015	47,768	100.00%	-
	2016	40,709	100.00%	-
Teachers	2014	2,799	100.00%	-
	2015	2,799	100.00%	-
	2016	2,321	100.00%	-
Judicial	2014	13	100.00%	-
	2015	13	100.00%	-
	2016	-	100.00%	-
State Police	2014	7,874	99.56%	8,485
	2015	8,170	99.57%	8,520
	2016	6,806	99.99%	8,503
Legislators	2014	-	N/A	-
	2015	-	N/A	-
	2016	27	N/A	-
BOE	2014	3,095	100.00%	-
	2015	3,011	100.00%	-
	2016	3,558	100.00%	-

The table below displays the funded status of each plan at June 30, 2015, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	\$ 92,125	\$ 622,826	\$ 530,701	14.8%	\$ 682,965	77.7%
Teachers	6,648	13,050	6,402	50.9%	n/a	n/a
Judicial	2,826	756	(2,070)	373.8%	10,281	-20.1%
State Police	22,920	78,857	55,937	29.1%	18,119	308.7%
Legislators	2,469	1,317	(1,152)	187.5%	1,742	-66.1%
BOE	14,608	69,106	54,498	21.1%	113,947	47.8%

Covered payroll and the UAAL as a percentage of covered payroll are not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

#### D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the

effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2016 were determined based on the June 30, 2013 valuations for all plans.

The following table summarizes the actuarial methods and assumptions used in the 2013 valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Equivalent Single Remaining Amortization Period	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023					
Excise Tax Under the Patient Protection and Affordable Care Act	11.00%					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

As of the June 30, 2013 actuarial valuation, the UAAL was amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2013 was 23 years. The UAAL for teachers is being amortized is based on the statutory contribution, subject to statutory restriction. The remaining amortization period at June 30, 2013 for teachers was three years. Due to the current funding status of the Judges and Legislators plans, the amortization period is set to 30-year open.

The most recent actuarial valuations of the plans were performed as of June 30, 2015.

There have been changes in actuarial assumptions since the June 30, 2013 valuation. Certain actuarial assumptions for State Employees, Legislators, and Board of Education were updated to match the assumptions used for State Employees in the most recent pension valuation for the Employees' Retirement System of Rhode Island (ERSRI). Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability

In addition, the wage inflation was changed to 3.75% for State Police in order to match the most recent actuarial valuation of the State Police Retirement Benefits Trust.

The excise tax load on pre-65 liabilities was changed from 11.0% to 13.8%

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2020. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2020.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

The table on the following page summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.



Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Equivalent Single Remaining Amortization Period	21 years closed	Determined by statutory contribution	30 years open	21 years closed	30 years open	21 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	3.50%	3.75% to 11.75%	3.50% to 6.50%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2016, grading to 3.5% in 2025					
Excise Tax Under the Patient Protection and Affordable Care Act	13.8%					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

Certain other component units have other post-employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

#### Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency."

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

#### Note 16. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage, subject to certain deductibles, on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100 thousand per person and \$300 thousand per accident for personal injury and \$20 thousand for property damage. During fiscal year 2016, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the full risk of loss. The State reimburses the administrator for the costs of all claims paid plus administrative fees.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2016 and June 30, 2015 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1, 2015	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2016
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 18,632	\$ 230,129	\$ 229,719	\$ 19,042
	Liability at July 1, 2014	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2015
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 16,328	\$ 221,513	\$ 219,209	\$ 18,632

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work-related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State's medical assistance expenditures.

## Note 17. Other Information

### A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 5,385	\$ 1,023	\$ 6,408	\$ (4,280)	\$ 2,128
Loans to other funds	114,731		114,731	(114,731)	
Total assets	<u>\$ 120,116</u>	<u>\$ 1,023</u>	<u>\$ 121,139</u>	<u>\$ (119,011)</u>	<u>\$ 2,128</u>
<b>Liabilities</b>					
Due to other funds	\$ 2,340	\$ 1,940	\$ 4,280	\$ (4,280)	\$
Loans from other funds	108,821	5,910	114,731	(114,731)	
Total liabilities	<u>\$ 111,161</u>	<u>\$ 7,850</u>	<u>\$ 119,011</u>	<u>\$ (119,011)</u>	<u>\$</u>
<b>Program revenue</b>					
General government	\$	\$ 302,392	\$ 302,392	\$ (302,392)	
Public safety		12,502	12,502	(12,502)	
<b>Expenses</b>					
General government		(301,322)	(301,322)	301,322	
Public safety		(13,572)	(13,572)	13,572	
Net revenue (expenses)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Transfers</b>					
Transfers in	\$ 572,569	\$	\$ 572,569	\$ (236,804)	\$ 335,765
Transfers out	(236,804)		(236,804)	236,804	
Net transfers	<u>\$ 335,765</u>	<u>\$</u>	<u>\$ 335,765</u>	<u>\$</u>	<u>\$ 335,765</u>
	Total Business-type Activities		Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 713	\$	\$ 713	\$ (2,841)	\$ (2,128)
Total assets	<u>\$ 713</u>	<u>\$</u>	<u>\$ 713</u>	<u>\$ (2,841)</u>	<u>\$ (2,128)</u>
<b>Liabilities</b>					
Due to other funds	\$ 2,841	\$	\$ 2,841	\$ (2,841)	\$
Total liabilities	<u>\$ 2,841</u>	<u>\$</u>	<u>\$ 2,841</u>	<u>\$ (2,841)</u>	<u>\$</u>
<b>Transfers</b>					
Transfers in	\$ 34,102	\$	\$ 34,102	\$ (34,102)	\$
Transfers out	(369,867)		(369,867)	34,102	(335,765)
Net transfers	<u>\$ (335,765)</u>	<u>\$</u>	<u>\$ (335,765)</u>	<u>\$</u>	<u>\$ (335,765)</u>

### B. Related Party Transactions

The State has transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority (RITBA). While maintenance responsibilities for the two bridges rest with RITBA, ownership and title remains with the State.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements granted by financial institutions and the R.I. Industrial Facilities Corporation for companies conducting business in the State.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport-related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00. In the event RIAC

does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The State has transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land was reported in the State's financial statements as a capital contribution at the historical cost of \$343 per acre, for a total of \$7,203. Significant improvements to the land are being funded by the State to complete redevelopment of the land for sale. In April 2013, the R.I. Commerce Corporation (RICC) issued conduit debt obligations on behalf of the I-195 RDC totaling \$38.4 million.

During fiscal 2016, the General Assembly appropriated \$25 million to the I-195 RDC to fund various economic development initiatives associated with the sale of the I-195 RDC land.

The voters of Rhode Island authorized the issuance of \$30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, \$20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3% to 5% and a life of nineteen years beginning in fiscal year 2009.

Under an agreement with AllianceBernstein, the administrator of the CollegeBoundfund operated by the R.I. Higher Education Savings Trust, the State received asset-based fees from AllianceBernstein and direct purchase commissions from direct purchases by certain non-Rhode Island residents. The total amount received during fiscal year 2016 was \$8,446,261. In addition, the State accrued a receivable of \$1,446,270 from AllianceBernstein at June 30, 2016 for amounts earned in fiscal year 2016.

During fiscal 2016, the State created the School Building Authority Fund program to address high priority school building projects in communities with limited resources. Certain administrative duties related to the management and custody of monetary assets of the program were assigned to the Rhode Island Health and Educational Building Corporation (RIHEBC), including establishing a trust to hold related monies, creating and maintaining program accounting records, and the distribution and management of awards. Approved awards can be loans, grants or a combination of both. An appropriation of \$20 million was made to RIHEBC to fund the program. Funding is expected to continue through annual appropriations from the legislature, loan repayments, bond refinance interest savings and other payments received by RIHEBC pursuant to finance agreements with cities, towns and local education agencies.

The Municipal Road and Bridge Revolving Fund was created within the Rhode Island Infrastructure Bank (RIIB) to provide municipalities with low-cost financial assistance for road and bridge projects. State statute requires RIIB to administer the financial components of the fund and requires the RI Department of Transportation to receive, review and rank municipal road and bridge projects submitted for funding consideration on an annual basis.

R. I. Commerce Corporation received various state appropriations totaling approximately \$27 million during fiscal 2016 to fund various economic development initiatives on behalf of the State.

## **C. Budgeting, Budgetary Control, and Legal Compliance**

### **Budget Preparation**

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference.

The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The State's budget documents may be accessed at the following website: <http://www.omb.ri.gov/budget>.

### Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch), is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

### D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units		
	Expense	Description
Governmental activities		
General		
University of Rhode Island	\$ 72,359	Operating assistance
Rhode Island College	44,861	Operating assistance
Community College of Rhode Island	47,809	Operating assistance
Central Falls School District	46,371	Operating assistance
The Met	11,234	Operating assistance
I-195 District Commission	25,845	Operating assistance
R.I. Commerce Corporation	40,324	Operating and capital assistance
R.I. Division of Higher Education Assistance	8,028	Operating assistance
R.I. Health and Education Building Corporation	63,864	School Building Authority Capital Fund/debt service
IST		
R.I. Public Transit Authority	46,792	Operating assistance
R.I. Turnpike and Bridge Authority	15,677	Infrastructure improvements
Bond Capital		
University of Rhode Island	15,605	Construction, improvement or purchase of assets
Rhode Island College	11,092	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	9,930	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	18,190	Construction, improvement or purchase of assets
Rhode Island College	8,165	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 486,146</u>	

## E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2016:

- Central Utilities (\$11 thousand)
- State Telecommunications (\$563 thousand)
- Records Center (\$215 thousand)
- Capitol Police (\$48 thousand)

The deficits will be eliminated through charges for services in fiscal year 2017.

## F. Restatements – Net Position

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units	Fiduciary Private Purpose Trusts
Balances previously reported at June 30, 2015				
Net position	\$ (596,579)	\$ 72,414	\$ 1,744,190	\$ 2,655
<b>Restatement due to:</b>				
1) Transfer of the functions of the previous RI Higher Education Authority to the newly created Division of Higher Education Assistance			(38,348)	
2) Inclusion of the RI Higher Education Savings Trust as private purpose trust fund of the State				7,417,315
3) Changes in the reporting entity			553,698	
4) Correction of errors (net)	(365)		261	
5) Adjustments to capital assets	(7,689)			
July 1, 2015 net position, as restated	<u>\$ (604,633)</u>	<u>\$ 72,414</u>	<u>\$ 2,259,801</u>	<u>\$ 7,419,970</u>

- 1) Effective July 1, 2015, the RI Higher Education Assistance Authority, previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (the Division) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal 2016 financial statements include the Division as a discretely presented component unit. Beginning net position was decreased for the net position of the RI Higher Education Assistance Authority which ceased operations on June 30, 2015. A fiscal 2016 special item reflects the transfer of net position to the new Division.
- 2) The Rhode Island Higher Education Savings Trust (the Trust), a private purpose trust, which had a beginning fiduciary net position of \$7.4 billion, was previously a fiduciary component unit of the RI Higher Education Assistance Authority but not included within the State reporting entity. Pursuant to legislation enacted by the General Assembly in the 2015 session, responsibility for oversight of the Trust was transferred to the General Treasurer effective July 1, 2015 and the Trust's financial statements are now included as a fiduciary (private purpose trust) fund.
- 3) Implementation of new State programs administered by quasi-public entities, which were previously considered related State organizations, resulted in reconsideration of those entities as component

units for fiscal 2016 consistent with generally accepted accounting principles. The RI Infrastructure Bank and RI Health and Education Building Corporation with beginning net position of \$541.7 million and \$12.0 million, respectively, have been included as discretely presented component units for fiscal 2016.

- 4) The governmental activities had a correction of an error, related primarily to the carrying value of certain assets. In addition, the correction of an error in the discretely presented component units relates primarily to the adjustment of the carrying value of certain assets and liabilities of two component units – the Met School (opening net position decreased \$92 thousand) and the Central Falls School District (opening net position increased \$353 thousand).
- 5) A net decrease of \$7.7 million was recorded to opening net position within the governmental activities related to capital assets. Of this net amount, a decrease of \$8.9 million was attributable to the adjustment of the carrying value of cancelled projects, remediation and donated property costs that were included in construction in progress in prior fiscal years. In addition, an increase of \$1.2 million was attributable to costs that should have been included in construction in progress in prior years for a software development project.



## G. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

### Revenue Bonds-Tobacco Settlement Financing Corporation

Revenue:

Tobacco settlement revenue-cash basis	\$ 47,432
Investment income	50
Total revenue	47,482
Operating expenses	141
Net revenue available for debt service	\$ 47,341

Required debt service payments	\$ 38,139
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Covered ratio before turbo principal payments (b)	124.13%
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Annual debt service (principal) turbo redemption (a)	10,005
Total annual debt service	\$ 48,144

Covered ratio after turbo principal payments	98.33%
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Term of commitment - through June 2052

### Revenue Bonds-GARVEE (Federal Highway)

Revenue - FHWA participation	\$ 6,254
Less: operating expenses	-
Net available revenue	\$ 6,254

Debt service (d)

Principal	\$ 0
Interest	6,254
Total debt service	\$ 6,254

Coverage (b)	100.00%
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Term of commitment - through June 2021

### Revenue Bonds-GARVEE (Gas Tax)

Revenue - 2 cents per gallon of the gasoline tax	\$ 8,981
Less: operating expenses	-
Net available revenue	\$ 8,981

Debt service

Principal	\$ 4,375
Interest	2,839
Total debt service	\$ 7,214

Coverage (b)	124.49%
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Term of commitment - through June 2027

### Division of Motor Vehicles Capital Lease (c)

(a) Debt service principal includes "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.

(b) Coverage equals net available revenue divided by debt service.

(c) Paid in full in fiscal year 2016. Accordingly, coverage information not presented.

(d) These bonds were refunded during the year.

## H. Special Items

### Discretely Presented Component Units

#### RI Division of Higher Education Assistance

Effective July 1, 2015, the R.I. Higher Education Assistance Authority (RIHEAA), previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (RIDHEA) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal year 2016 financial statements include the RIDHEA as a discretely presented component unit. Beginning net position was decreased for the net position of the RIHEAA which ceased operations on June 30, 2015.

Pursuant to a law enacted by the General Assembly, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the RIHEAA were transferred to the RIDHEA on July 1, 2015. In accordance with generally accepted accounting principles, a special item is reflected within the discretely presented component units to reflect the transfer of operations to RIDHEA.

The following table shows the net position transferred to the RIDHEA (expressed in thousands):

Current assets	\$ 42,552
Capital assets, net	1,566
Other assets	630
Total assets	44,748
Deferred outflow s of resources	232
Current liabilities	1,828
Noncurrent liabilities	4,543
Total liabilities	6,371
Deferred inflow s of resources	261
Net investment in capital assets	1,566
Restricted net position	36,782
Total net position	\$ 38,348

## Note 18. Subsequent Events

### Primary Government

In September 2016, pursuant to a law enacted by the General Assembly, the State made the initial deposit of \$15 million to a trust to fund and pay benefits that were earned under the provisions of the State Police Non-Contributory Retirement Plan discussed in Note 13. These funds were received by the State as a result of an asset forfeiture that stemmed from a multi-law enforcement agency investigation of Google, Inc. The legislation also calls for the State to make payments into the Trust to amortize the remaining unfunded liability over a period of 18 years.

In October 2016, the Rhode Island Commerce Corporation, on behalf of the RI Department of Transportation, issued \$245.925 million of Grant Anticipation Bonds. The bonds mature in 2025 to 2031 and have yields ranging from 1.92% to 2.60%. The bonds were issued to provide funding for reconstruction and/or replacement of certain of the State's bridges, highways and roads, and will be repaid with federal funds.

In November 2016, the voters of the State approved a referendum to allow the opening of a new casino/hotel in Tiverton near the Massachusetts border. This facility, which will replace the Newport Grand Casino, will be operated by the same company that operates the Twin River Casino in Lincoln.

### Discretely Presented Component Units

On July 1, 2016, the Rhode Island Airport Corporation issued \$36,885,000 2016 Series D General Airport Revenue Bonds and \$3,445,000 2016 Series E General Airport Revenue Bonds. The 2016 Series D issue matures annually from 2026 through 2046 with interest coupons of 5%. The 2016 Series E issue matures annually from 2017 through 2021 with interest coupons from 1.95% to 2.75%.

In October 2016, the R.I. Housing & Mortgage Finance Corporation (RIHMFC) issued Homeownership Opportunity Bonds Series 68 in the amount of \$193,105,000. On October 1, 2016, \$7,715,000 in Home Funding Bonds were redeemed prior to maturity and on October 14, 2016, \$157,560,000 in Homeownership Opportunity Bonds were redeemed prior to maturity. In addition, on December 1, 2016, \$10,770,000 in Multi-Family Development Bonds, and \$4,615,000 in General Housing Bond Program Bonds were redeemed prior to maturity. All redemptions were made under provisions in the bond resolutions that allow mortgage prepayments, excess revenues and refunded amounts to be used for such purposes. Additionally, in October 2016, RIHMFC issued a total of \$13,820,000 in Federal Financing Bank debt to refinance multi-family developments.

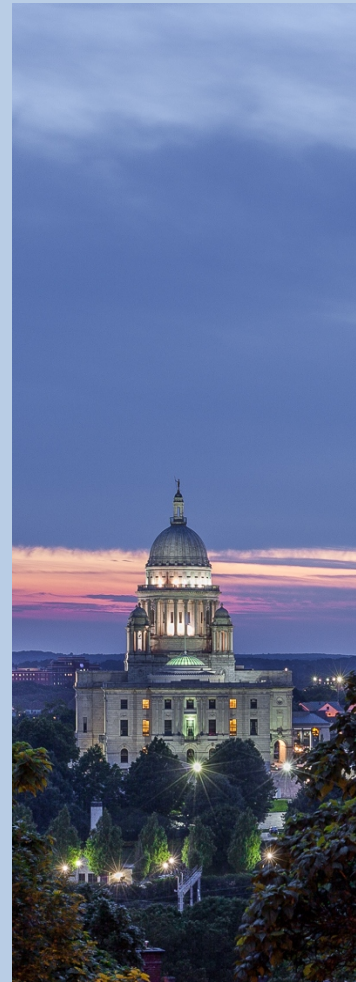
On October 18, 2016, the University of Rhode Island issued Higher Education Facility Revenue Bonds, Council on Postsecondary Education, University of Rhode Island Education and General Revenue Issue 2016 Series A bonds with a par amount of \$35,155,000. On the same day, the University issued Higher Education Facility Revenue Bonds, Council on Postsecondary Education, University of Rhode Island Auxiliary Enterprise Revenue Issue Refunding 2016 Series B bonds with a par amount of \$53,355,000.

A portion of the proceeds of the 2016 Series A Bonds will be used to finance and refinance the design, construction, renovation, improvement and equipping of certain utility systems and other infrastructure, including, without limitation, wastewater, electrical, telecommunications, natural gas connections and storm water management systems, as well as roadways, walkways and parking facilities.

In addition, a portion of the proceeds of the 2016 Series A Bonds and the 2016 Series B Refunding Bonds will be applied to redeem the 2005 Series A Bonds, the 2005 Series B Bonds, the 2005 Series C Bonds, the 2005 Series D Bonds, the 2005 Series F Bonds, and the 2005 Series G Bonds. The redemptions occurred within 60 days following the date of issuance of the 2016 Series bonds.

The I-195 Redevelopment District Commission has entered into a Purchase and Sale Agreement with SSL Partner, LLC and CV Properties, LLC dated January 14, 2016, in which the District has agreed to sell in three phases District Parcels 22 and 25. The District received an application for financial assistance from SSL Partner, LLC an affiliate of Wexford Science & Technology, LLC, under the Project Fund Act in relation to an office, research and development project to be located partially on a portion of District Parcel 22 and partially on other land of the applicant, located on Dyer and Dorrance Streets in Providence. On December 12, 2016 the District approved the application and committed to provide disbursements from the Project Fund to develop the Project in an aggregate amount not to exceed \$18,500,000. The District is authorized to advance up to \$1,000,000 from the Project Fund for the purpose of equipping space in the building located at One Ship Street and adjacent to District Parcel 22, owned by the applicant or its affiliate, for the purpose of preparing and equipping space in that building for one or more tenants.

# **Required Supplementary Information**



**State of Rhode Island  
Fiscal Year Ended  
June 30, 2016**



**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
General Revenues:				
Personal Income Tax	\$ 1,215,737	\$ 1,224,900	\$ 1,217,430	\$ (7,470)
General Business Taxes:				
Business Corporations	136,380	153,500	134,909	(18,591)
Public Utilities Gross Earnings	104,700	99,500	103,062	3,562
Financial Institutions	16,500	20,400	21,096	696
Insurance Companies	125,228	121,400	130,344	8,944
Bank Deposits	2,000	2,400	2,556	156
Health Care Provider Assessment	44,937	44,000	43,236	(764)
Sales and Use Taxes:				
Sales and Use	969,532	981,000	971,873	(9,127)
Motor Vehicle	36,538	39,200	39,692	492
Motor Fuel	500		(208)	(208)
Cigarettes	140,780	143,000	142,783	(217)
Alcohol	18,840	19,300	19,630	330
Other Taxes:				
Inheritance and Gift	20,400	25,100	70,029	44,929
Racing and Athletics	1,100	1,100	1,059	(41)
Realty Transfer Tax	10,211	10,400	10,432	32
Total Taxes (1)	2,843,383	2,885,200	2,907,923	22,723
Departmental Revenue	357,236	363,800	367,641	3,841
Total Taxes and Departmental Revenue	3,200,619	3,249,000	3,275,564	26,564
Other Sources:				
Lottery	331,740	370,100	369,761	(339)
Unclaimed Property	10,000	12,100	14,167	2,067
Other Miscellaneous	1,397	3,829	4,102	273
Total Other Sources	343,137	386,029	388,030	2,001
Total General Revenues	3,543,756	3,635,029	3,663,594	28,565
Federal Revenues	2,672,784	2,799,789	2,610,735	(189,054)
Restricted Revenues	243,843	308,238	241,872	(66,366)
Other Revenues	78,568	79,370	84,348	4,978
Non-budgeted Capital Lease Proceeds			5,021	5,021
Total Revenues (2)	6,538,951	6,822,426	6,605,571	(216,856)
<b>Expenditures (4):</b>				
General government	712,217	797,329	724,862	72,467
General government - non-budgeted capital lease expenditures			5,021	(5,021)
Total general government	712,217	797,329	729,883	67,446
Human services	3,712,320	3,816,384	3,694,123	122,261
Education	1,515,660	1,507,643	1,482,774	24,869
Public safety	513,958	540,374	504,217	36,157
Natural resources	93,030	98,249	78,270	19,979
Total Expenditures (2)	6,547,185	6,759,979	6,489,267	\$ 270,712
Transfer of Excess Budget Reserve to RI Capital Fund			108,813	
Total Expenditures and Transfers	\$ 6,547,185	\$ 6,759,979	6,598,080	
Change in Fund Balance			7,491	
Fund balance - beginning			501,887	
Fund balance - ending			\$ 509,378	

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Expenditures by Source:</b>				
General Revenues	\$ 3,551,989	\$ 3,572,582	\$ 3,547,905	\$ 24,677
Federal Funds	2,672,784	2,799,789	2,612,621	187,168
Restricted Receipts	243,844	308,238	242,189	66,049
Other Funds	78,568	79,370	81,531	(2,161)
Non-budgeted Capital Lease Expenditures			5,021	(5,021)
	<u>\$ 6,547,185</u>	<u>\$ 6,759,979</u>	<u>\$ 6,489,267</u>	<u>\$ 270,712</u>

**General Fund - Reconciliation of Budget Results to Changes in Fund Balance:**

**Budgeted Surplus:**

Total Revenue - Final Budget	\$ 6,822,426	
Total Expenditures - Final Budget	<u>6,759,979</u>	
<b>Final Budget - Projected Surplus (3)</b>		\$ 62,447

**Final Budget and Actual - Results**

Total Revenues - Variance (Actual Revenue less than Budget)	\$ (216,856)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	<u>270,712</u>	
<b>Surplus resulting from operations compared to final budget</b>		\$ 53,856
Total General Fund Surplus - Fiscal Year Ended June 30, 2016		\$ 116,303
Transfer of Excess Budget Reserve to RICAP Fund		<u>(108,813)</u>
<b>Net Change in General Fund - Fund Balance</b>		\$ 7,491
Fund Balance, Beginning		<u>501,887</u>
Fund Balance, Ending		<u>\$ 509,378</u>

**Notes:**

*Due to rounding, numbers presented may not add up precisely to the totals provided.*

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2016.

(4) Debt service expenditures are included in the above respective categories:

General government	\$ 118,872
Education	<u>15,538</u>
	<u>\$ 134,410</u>

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

**Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective**

	<b>Fund Balance Reported in the Financial Statements</b>	<b>Budgetary Perspective</b>		
		<b>Fund Balance Not Available for Appropriation in Fiscal 2017</b>	<b>Fund Balance Available for Appropriation in Fiscal 2017</b>	
Restricted	\$ 133,193	\$ 133,193	\$	
Committed	3,975	3,975		
Assigned	137,114	12,811 (a)	124,303 (b)	
Unassigned	235,096	191,581 (c)	43,515 (d)	
<b>Total Fund Balance</b>	<b>\$ 509,378</b>	<b>\$ 341,560</b>	<b>\$ 167,818</b>	

(a) Assigned fund balance not available for appropriation in fiscal 2017 includes (1) centralized cost allocation surplus that requires offset through fiscal 2017 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2017 includes fiscal 2016 ending surplus amounts of \$123.3 million appropriated as resources in the 2017 enacted budget, and fund balance amounts encumbered at June 30, 2016.

(c) Budget Reserve and Cash Stabilization Account - for financial statement purposes, this account is classified as unassigned, yet, it is not considered available for recurring operational appropriations.

(d) Remaining fund balance available for appropriation.

(concluded)

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Intermodal Surface Transportation Fund**  
**For the Fiscal Year Ended June 30, 2016**  
*(Expressed in Thousands)*

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues:</b>				
Taxes	\$ 141,711	\$ 141,711	\$ 184,793	\$ 43,082
Licenses, fines, sales, and services		59,067	22,444	(36,623)
Departmental restricted revenue	1,000	160	2,882	2,722
Federal grants	263,615	274,256	254,271	(19,985)
Other revenues	10,910	2,610	2,798	188
Total revenues	417,236	477,804	467,188	(10,616)
<b>Revenues and other Financing Sources (unbudgeted):</b>				
Miscellaneous revenue			(612)	
Total revenues			466,576	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond				
Capital Funds (State FHWA Match)			15,400	
Proceeds from refunding			230,280	
Other			38,619	
Total Other Financing Sources			284,299	
Total Revenues and Other Financing Sources			750,875	
<b>Expenditures (budgeted):</b>				
Central Management				
Federal Funds		8,853	5,966	2,887
Gasoline Tax	8,540	3,783	2,179	1,604
Total - Central Management	8,540	12,636	8,145	4,491
Management and Budget				
Gasoline Tax		3,695	1,354	2,341
Total - Management and Budget		3,695	1,354	2,341
Infrastructure-Engineering-GARVEE/				
Motor Fuel Tax Bonds				
Federal Funds		248,361	237,137	11,224
Federal Funds-Stimulus	240,533	17,042	11,256	5,786
Restricted Receipts	14,542	160	2,600	(2,440)
Gasoline Tax	1,000	72,513	72,319	194
Motor Fuel Tax Residuals	73,801	2,500	310	2,190
Total - Infrastructure - Engineering	329,876	340,576	323,622	16,954
Infrastructure - Maintenance				
Gasoline Tax	14,128	19,787	19,509	278
Non-Land Surplus Property	10	10		10
Outdoor Advertising	100	100		100
Rhode Island Highway Maintenance Account	54,349	59,067	30,446	28,621
Total - Infrastructure - Maintenance	68,587	78,964	49,955	29,009
Total Expenditures (budgeted)	\$ 407,003	\$ 435,871	\$ 383,076	\$ 52,795
<b>Expenditures and Financing Uses (unbudgeted):</b>				
Infrastructure Expenditures - State Match funded				
by RI Capital Plan and Bond Capital Funds			19,972	
Infrastructure Expenditures - GARVEE			1,738	
Payments to escrow agent			267,328	
I-195 Redevelopment District Project			2,012	
Mission 360 Loan Program			(50)	
Transfers to General Fund - Gas Tax			53,136	
Total Expenditures and Financing Uses (unbudgeted)			344,136	
Total Expenditures and Other Financing Uses			727,212	
Net change in fund balance			23,663	
Fund balance, beginning			112,476	
Fund balance, ending			\$ 136,139	
See Notes to Required Supplementary Information.				

## Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The budget to actual comparison for the General Fund on the preceding pages is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Examples of line items under "Administration" are "Central Management" and "Auditing". Management cannot reallocate any appropriations without special approval from the legislative branch. A separate schedule presenting such amounts at the detailed legal level of budgetary control is labeled "Annual Budgetary Comparison Schedules" and is available on the State Controller's website, <http://controller.admin.ri.gov/index.php>.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on the preceding page is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

**State of Rhode Island and Providence Plantations**  
**Pension Information**  
**Defined Benefit Multiple Employer Cost-Sharing Plan**

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island and an additional report prepared to provide the GASB 68 related information for participating employers.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – State Employees**
- **ERS – Schedule of State Contributions**
- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – Teachers**
- **ERS – Schedule of State Contributions – Teachers**

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

	2016	2015
State's proportion of the net pension liability	89.0%	89.0%
State's proportionate share of the net pension liability	\$ 1,767,095	\$ 1,585,647
State's covered employee payroll	\$ 595,832	\$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered employee payroll	296.6%	272.6%
Plan fiduciary net position as a percentage of the total pension liability	55.0%	58.6%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

	2016	2015
Actuarially determined contribution	\$ 144,696	\$ 138,689
Contributions in relation to the actuarially determined contribution	\$ 144,696	\$ 138,689
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 612,081	\$ 594,466
Contributions as a percentage of covered-employee payroll	23.64%	23.33%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of the State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

	<u>2016</u>	<u>2015</u>
State's proportion of the net pension liability	40.59%	40.68%
State's proportionate share of the net pension liability	\$ 1,117,395	\$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	57.60%	61.40%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

	2016	2015
Statutorily required contribution	\$ 87,998	\$ 84,944
Contributions in relation to the statutorily required contribution	87,998	84,944
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Pension Information**  
**Single Employer Defined Benefit Plans**

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed of each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
  - SPRBT
  - JRBT
  - RIJRFT
- **Schedule of State Contributions**
  - SPRBT
  - JRBT
  - RIJRFT

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability**  
**and Related Ratios**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 4,198	\$ 5,122
Interest	8,540	7,768
Benefit Changes	1,170	-
Differences between expected and actual experience	(3,522)	-
Changes of assumptions	-	(364)
Benefit payments	(2,497)	(1,767)
<b>Net Change in Total Pension Liability</b>	7,889	10,759
<b>Total Pension Liability-Beginning</b>	113,018	102,259
<b>Total Pension Liability-Ending</b>	<u>\$ 120,907</u>	<u>\$ 113,018</u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 3,432	\$ 3,331
Employee contributions	1,732	2,034
Net investment income	2,656	14,124
Benefit payments	(2,497)	(1,767)
Transfers of member contributions	-	-
Administrative expenses	(100)	(83)
Other	4	5
<b>Net Change in Plan Fiduciary Net Position</b>	\$ 5,227	\$ 17,644
<b>Plan Fiduciary Net Position-Beginning</b>	109,679	92,035
<b>Plan Fiduciary Net Position-Ending</b>	<u>\$ 114,906</u>	<u>\$ 109,679</u>
<b>Net Pension Liability</b>	<u>\$ 6,001</u>	<u>\$ 3,339</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	95.0%	97.0%
<b>Covered Employee Payroll</b>	\$ 19,701	\$ 23,051
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	30.5%	14.5%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability**  
**and Related Ratios**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 3,024	\$ 3,002
Interest	4,540	4,134
Benefit Changes	253	-
Differences between expected and actual experience	(2,857)	-
Changes of assumptions	-	(672)
Benefit payments	(1,809)	(1,631)
<b>Net Change in Total Pension Liability</b>	3,151	4,833
<b>Total Pension Liability-Beginning</b>	59,934	55,101
<b>Total Pension Liability-Ending</b>	<u>\$ 63,085</u>	<u>\$ 59,934</u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 2,709	\$ 2,543
Employee contributions	1,121	1,093
Net investment income	1,368	7,221
Benefit payments	(1,809)	(1,631)
Transfers of member contributions	-	-
Administrative expenses	(51)	(43)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	\$ 3,338	\$ 9,183
<b>Plan Fiduciary Net Position-Beginning</b>	56,172	46,989
<b>Plan Fiduciary Net Position-Ending</b>	<u>\$ 59,510</u>	<u>\$ 56,172</u>
<b>Net Pension Liability</b>	<u>\$ 3,575</u>	<u>\$ 3,762</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>		
<b>Pension Liability</b>	94.3%	93.7%
<b>Covered Employee Payroll</b>	\$ 9,570	\$ 9,314
<b>Net Pension Liability as a Percentage of Covered</b>		
<b>Employee Payroll</b>	37.4%	40.4%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations  
Required Supplementary Information  
Schedule of Changes in Net Pension Liability  
and Related Ratios  
Last Two Fiscal Years  
(Expressed in Thousands)

**Rhode Island Judicial Retirement Fund Trust**

	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 416	\$ 498
Interest	673	710
Benefit Changes	-	-
Differences between expected and actual experience	(642)	1,617
Changes of assumptions	859	(1,160)
Benefit payments	-	-
<b>Net Change in Total Pension Liability</b>	<u>1,306</u>	<u>1,665</u>
<b>Total Pension Liability-Beginning</b>	<u>17,506</u>	<u>15,841</u>
<b>Total Pension Liability-Ending</b>	<u><u>\$ 18,812</u></u>	<u><u>\$ 17,506</u></u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ -	\$ -
Employee contributions	159	153
Net investment income	9	12
Benefit payments	-	-
Transfers of member contributions	-	-
Administrative expenses	-	-
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<u>\$ 168</u>	<u>\$ 165</u>
<b>Plan Fiduciary Net Position-Beginning</b>	<u>318</u>	<u>153</u>
<b>Plan Fiduciary Net Position-Ending</b>	<u><u>\$ 486</u></u>	<u><u>\$ 318</u></u>
<b>Net Pension Liability</b>	<u><u>\$ 18,326</u></u>	<u><u>\$ 17,188</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	2.6%	1.8%
<b>Covered Employee Payroll</b>	\$ 1,321	\$ 1,276
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	1387.4%	1346.8%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

	2016	2015
Actuarially determined contribution	\$ 4,005	\$ 3,432
Contributions in relation to the actuarially determined contribution	4,005	3,432
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 23,258	\$ 19,907
Contributions as a percentage of covered-employee payroll	17.22%	17.24%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

	2016	2015
Actuarially determined contribution	\$ 2,410	\$ 2,709
Contributions in relation to the actuarially determined contribution	2,410	2,709
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 8,993	\$ 9,566
Contributions as a percentage of covered-employee payroll	26.80%	28.32%

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Rhode Island Judicial Retirement Fund Trust**

	2016	2015
Actuarially determined contribution	\$ 1,512	\$ 1,623
Contributions in relation to the actuarially determined contribution	140	-
Contribution deficiency (excess)	<u>\$ 1,372</u>	<u>\$ 1,623</u>
Covered-employee payroll	\$ 1,172	\$ 1,276
Contributions as a percentage of covered-employee payroll	11.9%	N/A

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Pension Information**  
**Non-Contributory (pay-as-you-go) Defined Benefit Single Employer Plans**

Certain retired state employees are covered by the following single-employer plans, which are separate from the plans previously described, and are not part of the Employees' Retirement System of Rhode Island.

- State Police Non-Contributory Retirement Plan
- Judicial Non-Contributory Retirement Plan

The State funds these plans on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. Separate actuarial valuations are performed to provide the accounting measures of the total pension liability for each of the plans.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

The following schedules are presented for each plan:

- **Schedule of Changes in the Total Pension Liability**
  - State Police Non-Contributory Retirement Plan
  - Judicial Non-Contributory Retirement Plan

The Schedule of State Contributions is not presented as the plans operate on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plans.

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of Changes in Total Pension Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Police Non-Contributory Retirement Plan**

<b>Total Pension Liability</b>	2016	2015
Service cost	\$ -	\$ -
Interest	10,503	10,795
Benefit changes	-	-
Differences between expected and actual experience	3,565	-
Changes of assumptions	15,955	-
Benefit payments	(17,512)	(17,700)
<b>Net Change in Total Pension Liability</b>	12,511	(6,905)
<b>Total Pension Liability-Beginning</b>	253,580	260,485
<b>Total Pension Liability-Ending</b>	<u>\$ 266,091</u>	<u>\$ 253,580</u>

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedule of Changes in Total Pension Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Non-Contributory Retirement Plan**

<b>Total Pension Liability</b>	2016	2015
Service cost	\$ -	\$ -
Interest	2,172	2,334
Benefit changes	-	-
Differences between expected and actual experience	328	-
Changes of assumptions	1,885	-
Benefit payments	(6,020)	(6,173)
<b>Net Change in Total Pension Liability</b>	(1,635)	(3,839)
<b>Total Pension Liability-Beginning</b>	53,653	57,492
<b>Total Pension Liability-Ending</b>	<u>\$ 52,018</u>	<u>\$ 53,653</u>

See Notes to Required Supplementary Information.

### Required Supplementary Information – Pensions

#### Significant Methods and Assumptions used in calculating the actuarially determined contributions

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contribution rates are applicable. The actuarially determined contribution rates for fiscal 2016 were determined based on valuations performed as of June 30, 2013. Significant methods and assumptions are summarized for each plan in the table below:

	ERS		SPRBT	JRBT	RIJRFT
	State Employees	Teachers			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				Level Dollar
Equivalent single remaining amortization period	22 years remaining at June 30, 2013				
Asset valuation method	5 year smoothed market				
Amortization period for gains and losses	20 years				
Actuarial Assumptions					
Investment Rate of Return	7.50%				4.00%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.5%	3.75% to 11.75%	3.50%	3.50%
Mortality	<ul style="list-style-type: none"><li>Male Employees, MERS General and MERS P&amp;F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.</li><li>Female Employees, MERS General and MERS P&amp;F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.</li></ul>				
		Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.			
Inflation	2.75%				
Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first \$25,000 of benefits, indexed over time. COLA is delayed until the latter of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.					

#### Factors affecting trends for amounts related to the net pension liability

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement

date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments

State of Rhode Island and Providence Plantations  
Required Supplementary Information  
Schedules of Funding Progress  
Other Postemployment Benefits  
June 30, 2016  
(Expressed in Thousands)

**State Employees Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 92,125	\$ 622,826	\$ 530,701	14.8%	\$ 682,965	77.7%
06/30/2013	39,527	637,059	597,532	6.2%	671,762	88.9%
06/30/2011	* 11,545	728,207	716,662	1.6%	600,273	119.4%

**Teachers Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 6,648	\$ 13,050	\$ 6,402	50.9%	NA	NA
06/30/2013	3,230	12,569	9,339	25.7%	NA	NA
06/30/2011	2,040	11,512	9,472	17.7%	NA	NA

**Judicial Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 2,826	\$ 756	\$ (2,070)	373.8%	\$ 10,281	-20.1%
06/30/2013	2,151	1,054	(1,097)	204.1%	13,447	-8.2%
06/30/2011	841	2,610	1,769	32.2%	10,813	16.4%

**State Police Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 22,920	\$ 78,857	\$ 55,937	29.1%	\$ 18,119	308.7%
06/30/2013	9,587	70,385	60,798	13.6%	17,748	342.6%
06/30/2011	1,488	81,759	80,271	1.8%	17,384	461.8%

**Legislators Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 2,469	\$ 1,317	\$ (1,152)	187.5%	\$ 1,742	-66.1%
06/30/2013	2,202	1,549	(653)	142.2%	1,695	-38.5%
06/30/2011	1,442	1,443	1	99.9%	1,615	0.1%

**Board of Education Health Care Insurance Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	\$ 14,608	\$ 69,106	\$ 54,498	21.1%	\$ 113,947	47.8%
06/30/2013	7,486	55,706	48,220	13.4%	113,375	42.5%
06/30/2011	3,189	53,751	50,562	5.9%	125,340	40.3%

See Notes to Required Supplementary Information.

## Schedules of Funding Progress - Other Postemployment Benefits

### 1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2015, is included in Note 14.

### 2. Schedules of Funding Progress

#### ***Changes affecting the June 30, 2015 Actuarial Valuation:***

There have been some changes in actuarial assumptions since the June 30, 2013 valuation. Certain actuarial assumption for State Employees, Legislators and Board of Education were updated to match the assumptions used for State Employees in the most recent pension valuation for the Employees' Retirement System of Rhode Island (ERSRI). Changes were made to the following assumptions; merit and longevity portion of the salary increase assumption, rates of separation from active membership, rates of retirement and rates of disability. In addition, the wage inflation for the State Police was changed to 3.75% in order to match the most recent actuarial valuation of the State Police Retirement Benefits Trust. Also, the health care trend assumption has been reset to 9.0% the first year trending down to 3.5% over 10 years. The excise tax load was increased from 11% to 13.8%. The excise tax has been delayed by one year; however, the rate increase in pre-65 pre-capita costs has out-paced increases in price inflation which has a lowering effect on the excise tax.

#### ***Changes affecting the June 30, 2013 Actuarial Valuation:***

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

#### ***Changes affecting the June 30, 2011 Actuarial Valuation:***

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption from 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

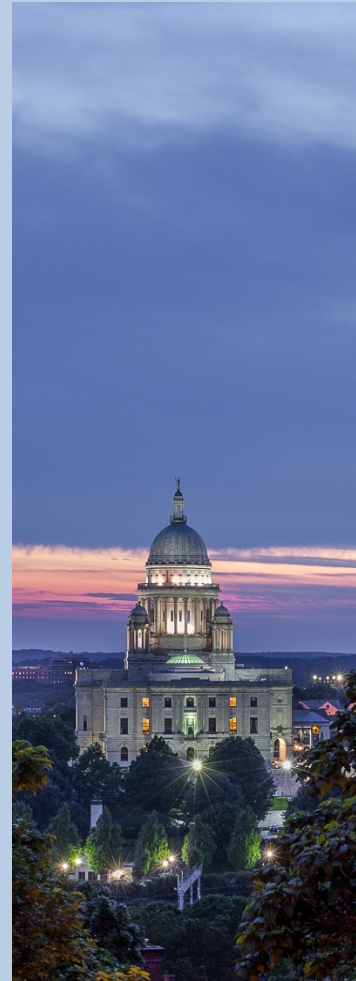


The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change.

# **Combining Financial Statements**



**State of Rhode Island  
Fiscal Year Ended  
June 30, 2016**



## Nonmajor Funds

**Special Revenue Funds** - account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes and where a separate fund is mandated.

**Coastal Resources Management Council Dredge Fund** – accounts for fees in excess of the base rate per cubic yard for the disposal of dredge materials. These funds must be used to create additional dredging and disposal options.

**R.I. Temporary Disability Insurance Fund** – accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

**Historic Tax Credit Financing Fund** – accounts for application fees relating to historic tax credit eligible projects, proceeds from the issuance of Revenue Bonds under the Historic Structures Tax Credit Financing Program as well as related expenditures and transfers.

**R.I. Public Rail Corporation** – accounts for activity of this entity which includes state appropriations, insurance and other administrative expenses and property rental related activities.

**Capital Project Funds** – account for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds.

**Bond Capital** – accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund.

**R.I. Capital Plan** – accounts for the portion of the payment into the budget reserve account that causes the balance in the budget reserve account to be in excess of the legal requirement and proceeds as designated by statute. The fund is to be used solely for funding capital projects.

**R.I. Clean Water Act Environmental Trust** – accounts for the proceeds of certain bonds issued of which the proceeds are restricted to providing grants and loans to local governmental entities and the required State share or related expenses for the Narragansett Bay study.

**Certificates of Participation** – accounts for the proceeds of the sale of certificates of participation which provide funding for the acquisition, construction or improvement of public facilities and equipment.

**Debt Service Funds** – are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

**Tobacco Settlement Financing Corporation (TSFC)** – created to securitize the tobacco settlement revenues from the State.

**Permanent Funds** – are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the purposes that support the State's programs.

**Permanent School** – accounts for certain appropriations of the General Assembly and the earnings thereon, which are to be used for the promotion and support of public education.

State of Rhode Island and Providence Plantations  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016  
(Expressed in Thousands)

	Special Revenue					Capital Project					Debt Service	Permanent	
	Coastal Resources Management Council Dredge	R.I. Temporary Disability	Historic Tax Credit Financing	R.I. Public Rail Corporation	Total Special Revenue Funds	Bond Capital	R.I. Capital Plan	R.I. Clean Water Act Environmental Trust	Certificates of Participation	Total Capital Project Funds	Tobacco Settlement Financing Corporation	Permanent School	Total Nonmajor Governmental Funds
Assets													
Cash and cash equivalents	\$ 664	\$ 104,213	\$ 6,224	\$ 112	\$ 111,213	\$ 72,264	\$ 61,816	\$ 5,284	\$	\$ 139,364	\$ 184	\$ 2,209	\$ 252,970
Funds on deposit with fiscal agent			53,429		53,429				23,694	23,694			77,123
Restricted cash equivalents											52,241		52,241
Receivables (net)		48,312			48,312						23,982		72,294
Due from other funds		84	306		390								390
Loans to other funds							108,813			108,813			108,813
Total assets	\$ 664	\$ 152,609	\$ 59,959	\$ 112	\$ 213,344	\$ 72,264	\$ 170,629	\$ 5,284	\$ 23,694	\$ 271,871	\$ 76,407	\$ 2,209	\$ 563,831
Liabilities and Fund Balances													
Liabilities													
Accounts payable		56			56	9,811	7,996		2,799	20,606			20,662
Due to other funds						1,115	1,225			2,340			2,340
Due to component units						7,626	8,481		7,801	23,908			23,908
Loans from other funds									8	8			8
Other liabilities		268			268	67	200			267			535
Total liabilities		324			324	18,619	17,902		10,608	47,129			47,453
Fund balances													
Nonspendable													
Restricted	664	152,285	59,959		212,908	53,645	152,727	5,284	13,086	224,742	76,407	174	174
Unrestricted												2,035	516,092
Committed				112	112								112
Total fund balances	664	152,285	59,959	112	213,020	53,645	152,727	5,284	13,086	224,742	76,407	2,209	516,378
Total liabilities and fund balances	\$ 664	\$ 152,609	\$ 59,959	\$ 112	\$ 213,344	\$ 72,264	\$ 170,629	\$ 5,284	\$ 23,694	\$ 271,871	\$ 76,407	\$ 2,209	\$ 563,831

State of Rhode Island and Providence Plantations  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	Special Revenue				Capital Projects						Debt Service	Permanent	
	Coastal Resources Management Council Dredge	R.I. Temporary Disability	Historic Tax Credit Financing	R.I. Public Rail Corporation	Total Special Revenue Funds	Bond Capital	R.I. Capital Plan	R.I. Clean Water Act Environmental Trust	Certificates of Participation	Total Capital Project Funds	Tobacco Settlement Financing Corporation	Permanent School	Total Nonmajor Governmental Funds
Revenues:													
Taxes	\$	\$ 186,283	\$	\$	\$ 186,283	\$	\$	\$	\$	\$	\$	\$	\$ 186,283
Licenses, fines, sales, and services			1,927	27	1,954							247	2,201
Income from investments		347	17		364	271	225	18	79	593	50	7	1,014
Other revenues									16	16	47,456		47,472
Total revenues		186,630	1,944	27	188,601	271	225	18	95	609	47,506	254	236,970
Expenditures:													
Current:													
General government		184,026	2,500		186,526						141		186,667
Natural resources	37				37								37
Transportation				1,538	1,538								1,538
Capital outlays						93,786	76,856	28	14,691	185,361			185,361
Debt service:													
Principal									3,075	3,075	21,155		24,230
Interest and other charges			2		2	1,947			269	2,216	27,199		29,417
Total expenditures	37	184,026	2,502	1,538	188,103	95,733	76,856	28	18,035	190,652	48,495		427,250
Excess (deficiency) of revenues over (under) expenditures	(37)	2,604	(558)	(1,511)	498	(95,462)	(76,631)	(10)	(17,940)	(190,043)	(989)	254	(190,280)
Other financing sources (uses)													
Issuance of bonds and notes						72,000				72,000			72,000
Issuance of refundings						228,955				228,955			228,955
Premium						34,897				34,897			34,897
Transfers in				1,533	1,533		110,530		1,135	111,665			113,198
Payment to refunded bonds escrow agent						(265,453)				(265,453)			(265,453)
Transfers out		(1,891)	(12,615)		(14,506)	(5,492)	(13,746)		(979)	(20,217)			(34,723)
Total other financing sources (uses)		(1,891)	(12,615)	1,533	(12,973)	64,907	96,784		156	161,847			148,874
Net change in fund balances	(37)	713	(13,173)	22	(12,475)	(30,555)	20,153	(10)	(17,784)	(28,196)	(989)	254	(41,406)
Fund balances - beginning	701	151,572	73,132	90	225,495	84,200	132,574	5,294	30,870	252,938	77,396	1,955	557,784
Fund balances - ending	\$ 664	\$ 152,285	\$ 59,959	\$ 112	\$ 213,020	\$ 53,645	\$ 152,727	\$ 5,284	\$ 13,086	\$ 224,742	\$ 76,407	\$ 2,209	\$ 516,378

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Rhode Island Temporary Disability Insurance Fund**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>* Revenues:</b>				
Taxes	\$ 186,283	\$ 186,283	\$ 186,283	\$
Other Revenues	347	347	347	
Total Revenues	<u>186,630</u>	<u>186,630</u>	<u>186,630</u>	
<b>Expenditures:</b>				
Department of Labor and Training	193,989	183,612	185,717	(2,105)
Treasury Department	219	234	200	34
Total Expenditures	<u>\$ 194,208</u>	<u>\$ 183,846</u>	<u>\$ 185,917</u>	<u>\$ (2,071)</u>
Net change in fund balance			713	
<b>* Fund balance - beginning</b>			151,572	
<b>Fund balance - ending</b>			<u><u>\$ 152,285</u></u>	

\* Revenues are not legislatively adopted, budgeted revenues and opening surplus are assumed to equal actual amounts.

## Internal Service Funds

**Internal Service Funds** are used to account for the financing and provision of specified goods and services, on a centralized basis, for other departments and agencies.

**Assessed Fringe Benefits** – accounts for the biweekly assessment of a percentage applied to salaries and wages to pay for certain fringe benefits, including workers' compensation to State employees injured on the job.

**Central Utilities** – processes all electric bills for the State and charges the expending department/agency.

**Central Mail** – provides for the delivery of mail services for the State.

**State Telecommunications** – provides telecommunication services for the State, processes all of the telephone bills for the State and charges the expending department/agency.

**Automotive Maintenance** – approves work orders, pays the corresponding bills for the State's motor vehicle fleet and bills the user department/agency.

**Central Warehouse** – provides a low-cost centralized distribution center for food for State institutions and local public school districts.

**Correctional Industries** – provides job training for inmates through prison industries.

**Surplus Property** – accounts for the revenues received and the expenses incurred from the disposition of State surplus property.

**Records Center** – provides a centralized location for the archival of State documents.

**Health Insurance Active** – pays active employee health benefits.

**State Fleet Replacement Revolving Loan** – used to finance the acquisition of new vehicles by various State agencies, and functions as a revolving loan fund.

**Capitol Police** – provides security for certain State buildings.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>Assessed Fringe Benefits</b>	<b>Central Utilities</b>	<b>Central Mail</b>	<b>State Telecom- munications</b>	<b>Automotive Maintenance</b>	<b>Central Warehouse</b>	<b>Correctional Industries</b>
<b>Assets:</b>							
Current assets:							
Cash and cash equivalents	\$ 2,122	\$ 1,987	\$	\$	\$ 1,022	\$ 2,537	\$ 482
Receivables (net)	1,983		493	125	985	33	1,309
Due from other funds		161	218		24	322	272
Inventories			572		187	613	424
Other assets			1				
Total current assets	4,105	2,148	1,284	125	2,218	3,505	2,487
Noncurrent assets:							
Capital assets (net)	12		7		27	2,424	198
Total noncurrent assets	12		7		27	2,424	198
Total assets	4,117	2,148	1,291	125	2,245	5,929	2,685
<b>Liabilities:</b>							
Current liabilities:							
Accounts payable	446	139	55	76	1,160	390	1,076
Due to other funds	241			149			
Loans from other funds	650	2,012	983	367	750		800
Other liabilities	1,570	8	189	96	58	129	278
Total current liabilities	2,907	2,159	1,227	688	1,968	519	2,154
<b>Net Position (Deficit):</b>							
Net investment in capital assets	12		7		27	2,424	198
Unrestricted	1,198	(11)	57	(563)	250	2,986	333
Total net position (deficit)	\$ 1,210	\$ (11)	\$ 64	\$ (563)	\$ 277	\$ 5,410	\$ 531

(Continued)



**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>State Fleet Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 66	\$ 166	\$ 19,268	\$ 5,654	\$	\$ 33,304
Receivables (net)		118	3,794	4,796		13,636
Due from other funds			26			1,023
Inventories						1,796
Other assets			5,995			5,996
Total current assets	66	284	29,083	10,450		55,755
Noncurrent assets:						
Capital assets (net)						2,668
Total noncurrent assets						2,668
Total assets	66	284	29,083	10,450		58,423
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable		48	19,042			22,432
Due to other funds		93		1,457		1,940
Loans from other funds		300			48	5,910
Other liabilities		58	609			2,995
Total current liabilities		499	19,651	1,457	48	33,277
<b>Net Position (Deficit):</b>						
Net investment in capital assets						2,668
Unrestricted	66	(215)	9,432	8,993	(48)	22,478
Total net position (deficit)	\$ 66	\$ (215)	\$ 9,432	\$ 8,993	\$ (48)	\$ 25,146

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Assessed Fringe Benefits</b>	<b>Central Utilities</b>	<b>Central Mail</b>	<b>State Telecom- munications</b>	<b>Automotive Maintenance</b>	<b>Central Warehouse</b>	<b>Correctional Industries</b>
<b>Operating revenues:</b>							
Charges for services	\$ 40,017	\$ 14,618	\$ 6,196	\$ 3,145	\$ 11,184	\$ 5,458	\$ 6,052
Total operating revenues	<u>40,017</u>	<u>14,618</u>	<u>6,196</u>	<u>3,145</u>	<u>11,184</u>	<u>5,458</u>	<u>6,052</u>
<b>Operating expenses:</b>							
Personal services	6,333		888	905	587	923	1,631
Supplies, materials, and services	30,575	14,618	4,669	2,334	11,425	4,523	5,544
Depreciation	5		1		17	99	47
Total operating expenses	<u>36,913</u>	<u>14,618</u>	<u>5,558</u>	<u>3,239</u>	<u>12,029</u>	<u>5,545</u>	<u>7,222</u>
Operating income (loss)	<u>3,104</u>		<u>638</u>	<u>(94)</u>	<u>(845)</u>	<u>(87)</u>	<u>(1,170)</u>
<b>Nonoperating revenues (expenses):</b>							
Interest revenue	5						
Other nonoperating revenues and (expenses)	19					1	
Change in net position	<u>3,128</u>		<u>638</u>	<u>(94)</u>	<u>(845)</u>	<u>(86)</u>	<u>(1,170)</u>
Net position (deficit) - beginning	<u>(1,918)</u>	<u>(11)</u>	<u>(574)</u>	<u>(469)</u>	<u>1,122</u>	<u>5,496</u>	<u>1,701</u>
Net position (deficit) - ending	<u>\$ 1,210</u>	<u>\$ (11)</u>	<u>\$ 64</u>	<u>\$ (563)</u>	<u>\$ 277</u>	<u>\$ 5,410</u>	<u>\$ 531</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>State Fleet Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Operating revenues:</b>						
Charges for services	\$	\$ 812	\$ 226,367	\$ 43	\$ 1,002	\$ 314,894
Total operating revenues		812	226,367	43	1,002	314,894
<b>Operating expenses:</b>						
Personal services		519	629		1,002	13,417
Supplies, materials, and services	2	435	230,129	1,753		306,007
Depreciation						169
Total operating expenses	2	954	230,758	1,753	1,002	319,593
Operating income (loss)	(2)	(142)	(4,391)	(1,710)		(4,699)
<b>Nonoperating revenues (expenses):</b>						
Interest revenue			99	13		117
Other nonoperating revenues and (expenses)						20
Change in net position	(2)	(142)	(4,292)	(1,697)		(4,562)
Net position (deficit) - beginning	68	(73)	13,724	10,690	(48)	29,708
Net position (deficit) - ending	\$ 66	\$ (215)	\$ 9,432	\$ 8,993	\$ (48)	\$ 25,146

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Assessed Fringe Benefits</b>	<b>Central Utilities</b>	<b>Central Mail</b>	<b>State Telecom- munications</b>	<b>Automotive Maintenance</b>	<b>Central Warehouse</b>	<b>Correctional Industries</b>
<b>Cash flows from operating activities:</b>							
Cash received from customers	\$ 40,397	\$ 14,845	\$ 5,570	\$ 3,738	\$ 10,207	\$ 5,355	\$ 5,578
Cash payments to suppliers for goods and services	(30,552)	(14,709)	(4,931)	(2,354)	(10,552)	(4,609)	(3,789)
Cash payments to employees	(6,778)	1	(865)	(930)	(579)	(923)	(1,609)
Other operating revenue (expense)	19					1	
Net cash provided by (used for) operating activities	<u>3,086</u>	<u>137</u>	<u>(226)</u>	<u>454</u>	<u>(924)</u>	<u>(176)</u>	<u>180</u>
<b>Cash flows from noncapital financing activities:</b>							
Loans from other funds	2,000	4,616	982	367	750		800
Loans to other funds							
Repayment of loans to other funds							
Repayment of loans from other funds	(4,000)	(3,398)	(748)	(821)			(1,050)
Net cash provided by (used for) noncapital financing activities	<u>(2,000)</u>	<u>1,218</u>	<u>234</u>	<u>(454)</u>	<u>750</u>		<u>(250)</u>
<b>Cash flows from capital and related financing activities:</b>							
Acquisition of capital assets			(8)			(33)	(8)
Net cash provided by (used for) capital and related financing activities			<u>(8)</u>			<u>(33)</u>	<u>(8)</u>
<b>Cash flows from investing activities:</b>							
Interest on investments	5						
Net cash provided by (used for) investing activities	<u>5</u>						
Net increase (decrease) in cash and cash equivalents	1,091	1,355			(174)	(209)	(78)
Cash and cash equivalents - July 1	1,031	632			1,196	2,746	560
Cash and cash equivalents - June 30	<u>\$ 2,122</u>	<u>\$ 1,987</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,022</u>	<u>\$ 2,537</u>	<u>\$ 482</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Assessed Fringe Benefits</b>	<b>Central Utilities</b>	<b>Central Mail</b>	<b>State Telecom- munications</b>	<b>Automotive Maintenance</b>	<b>Central Warehouse</b>	<b>Correctional Industries</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>							
Operating income (loss)	\$ 3,104	\$	\$ 638	\$ (94)	\$ (845)	\$ (87)	\$ (1,170)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>							
Depreciation	5		1		17	99	47
Other revenue (expense) and transfers in (out)	19					1	
(Increase) decrease in assets:							
Receivables	380	227	(330)	592	(615)	(103)	(475)
Inventory			(246)		123	(1)	1,440
Increase (decrease) in liabilities:							
Accounts payable	23	(91)	(311)	(19)	388	(85)	316
Accrued expenses	(445)	1	22	(25)	8		22
Total adjustments	(18)	137	(864)	548	(79)	(89)	1,350
Net cash provided by (used for) operating activities	<u>\$ 3,086</u>	<u>\$ 137</u>	<u>\$ (226)</u>	<u>\$ 454</u>	<u>\$ (924)</u>	<u>\$ (176)</u>	<u>\$ 180</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>State Fleet Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$	\$ 866	\$ 223,148	\$ 1,226	\$ 1,002	\$ 311,932
Cash payments to suppliers for goods and services	(3)	(412)	(229,710)	(1,753)		(303,374)
Cash payments to employees		(510)	(629)		(1,002)	(13,824)
Other operating revenue (expense)						20
Net cash provided by (used for) operating activities	(3)	(56)	(7,191)	(527)		(5,246)
<b>Cash flows from noncapital financing activities:</b>						
Loans from other funds					48	9,563
Loans to other funds				(10,837)		(10,837)
Repayment of loans to other funds				11,310		11,310
Repayment of loans from other funds		(60)			(48)	(10,125)
Net cash provided by (used for) noncapital financing activities		(60)		473		(89)
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of capital assets						(49)
Net cash provided by (used for) capital and related financing activities						(49)
<b>Cash flows from investing activities:</b>						
Interest on investments			99	13		117
Net cash provided by (used for) investing activities			99	13		117
Net increase (decrease) in cash and cash equivalents	(3)	(116)	(7,092)	(41)		(5,267)
Cash and cash equivalents - July 1	69	282	26,360	5,695		38,571
Cash and cash equivalents - June 30	\$ 66	\$ 166	\$ 19,268	\$ 5,654	\$	\$ 33,304

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<u>Surplus Property</u>	<u>Records Center</u>	<u>Health Insurance Active</u>	<u>State Fleet Replacement Revolving Loan</u>	<u>Capitol Police</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
Operating income (loss)	<u>\$ (2)</u>	<u>\$ (142)</u>	<u>\$ (4,391)</u>	<u>\$ (1,710)</u>	<u>\$</u>	<u>\$ (4,699)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>						
Depreciation						169
Other revenue (expense) and transfers in (out)						20
(Increase) decrease in assets:						
Receivables		(39)	(3,219)			(3,582)
Inventory						1,316
Increase (decrease) in liabilities:						
Accounts payable	(1)	115	419	1,183		1,937
Accrued expenses		10				(407)
Total adjustments	<u>(1)</u>	<u>86</u>	<u>(2,800)</u>	<u>1,183</u>		<u>(547)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (3)</u></u>	<u><u>\$ (56)</u></u>	<u><u>\$ (7,191)</u></u>	<u><u>\$ (527)</u></u>	<u><u>\$</u></u>	<u><u>\$ (5,246)</u></u>
						(Concluded)

## Trust Funds

### Pension Trust Funds

**Pension Trust Funds** – used to report resources that are required to be held for the members and beneficiaries of the State sponsored pension plans.

**Employees' Retirement System** – a multiple-employer, cost-sharing, public employee retirement plan for State employees, teachers and certain employees of local school districts.

**Municipal Employees' Retirement System** – an agent multiple-employer public employee retirement plan for municipal police, firemen and employees of municipalities, housing authorities and water and sewer districts that have elected to participate.

**State Police Retirement Benefits Trust** – a single-employer public employee retirement plan for State police hired after July 1, 1987.

**Judicial Retirement Benefits Trust** – a single-employer public employee retirement plan for State judges appointed after December 31, 1989.

**Judicial Retirement Fund Trust** – a single-employer public employee retirement plan for State judges appointed before January 1, 1990.

**Teachers' Survivors Benefit Plan** – a multiple-employer, cost-sharing plan that provides a survivor benefit to certain public school teachers in lieu of Social Security, since not all school districts participate in Social Security.

**Defined Contribution Plan** – a money purchase plan that operates under Section 401 (a) of the Internal Revenue Code. The plan covers members of the Employees' Retirement System, excluding legislators, correctional officers and Municipal Employees' Retirement System police and fire employees who participate in Social Security. Judges and State police officers are also excluded from the plan.

**FICA Alternative Retirement Income Security Program** – a money purchase plan that operates under Section 401 (a) of the Internal Revenue Code. The plan covers any part-time, seasonal, or temporary employees of the State of Rhode Island hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI).

### Other Employee Benefit Trust Funds

**OPEB Trust Funds** – established for the purpose of providing and administering OPEB benefits for retired employees of the State of Rhode Island and their dependents for the classes listed below.

**State Employees** – covers State employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.

**Teachers** – covers certified public school teachers electing to participate.

**Judicial** – covers judges and magistrates.

**State Police** – covers retired State police officers.

**Legislators** – covers retired and former members of the General Assembly.

**Board of Education** – covers certain members of the University and Colleges, primarily faculty.



## Trust Funds

### Private Purpose Trust Funds

**Rhode Island Higher Education Savings Trust (RIHEST)** administers the CollegeBoundfund which was established as part of the Rhode Island Tuition Savings Program, to enable residents of any state to save money on a tax-advantaged basis to pay qualified higher education expenses of their designated beneficiaries.

**Touro Jewish Synagogue Fund** accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Pension and Other Employee Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Employee Benefits Trust</b>	<b>Totals</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,929	\$ 3,917	\$ 9,846
Advance held by claims processing agent		775	775
Receivables			
Contributions	63,437	1,921	65,358
Due from State for teachers	23,190		23,190
Due from other plans	30		30
Other	2,394		2,394
Miscellaneous	199		199
Total receivables	89,250	1,921	91,171
Prepaid expenses	5,611		5,611
Investments, at fair value			
Equity in pooled trust	7,525,308	178,159	7,703,467
Other investments	516,133		516,133
Total investments	8,041,441	178,159	8,219,600
Total assets	8,142,231	184,772	8,327,003
<b>Liabilities</b>			
Accounts payable	5,405	783	6,188
Due to other plans	30		30
Incurred but not reported claims		1,614	1,614
Other		2,249	2,249
Total liabilities	5,435	4,646	10,081
<b>Net position held in trust for pension and other postemployment benefits</b>	<b>\$ 8,136,796</b>	<b>\$ 180,126</b>	<b>\$ 8,316,922</b>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Pension and Other Employee Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Employee Benefits Trust</b>	<b>Totals</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 196,104	\$ 8,101	\$ 204,205
Employer contributions	377,549	53,438	430,987
Supplemental employer contributions	408		408
State contributions for teachers	87,998		87,998
Interest on service credits purchased	145		145
Service credit transfer payments	13,406		13,406
Total contributions	675,610	61,539	737,149
Other income	111	1,696	1,807
Investment income			
Net appreciation in fair value of investments	(75,841)	6,745	(69,096)
Interest	57,743	1,431	59,174
Dividends	23,249		23,249
Other investment income	10,996		10,996
	16,147	8,176	24,323
Less investment expense	20,146	74	20,220
Net investment income	(3,999)	8,102	4,103
Total additions	671,722	71,337	743,059
<b>Deductions</b>			
Retirement benefits	928,232		928,232
Death benefits	3,482		3,482
Distributions	9,225		9,225
Refund of contributions	8,046		8,046
Administrative expense	8,660	78	8,738
Service credit transfers	13,406		13,406
OPEB benefits		38,519	38,519
Total deductions	971,051	38,597	1,009,648
Change in net position	(299,329)	32,740	(266,589)
<b>Net position held in trust for pension and other postemployment benefits</b>			
Net position - beginning	8,436,125	147,386	8,583,511
Net position - ending	<u>\$ 8,136,796</u>	<u>\$ 180,126</u>	<u>\$ 8,316,922</u>

State of Rhode Island and Providence Plantations  
Combining Statement of Fiduciary Net Position  
Pension Trust Funds  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	Employees' Retirement System	Municipal Employees' Retirement	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	Judicial Retirement Fund Trust	Teachers' Survivors Benefit Plan	Defined Contribution Plan	FICA Alternative Retirement Program	Totals
<b>Assets</b>									
Cash and cash equivalents	\$ 4,647	\$ 1,149	\$ 56	\$ 61	\$ 4	\$ 12	\$	\$	\$ 5,929
Receivables									
Contributions	53,289	9,742	208	130	4	64			63,437
Due from State for teachers	23,190								23,190
Due from other plans	20				10				30
Other	2,287	82				25			2,394
Miscellaneous	121				78				199
Total receivables	78,907	9,824	208	130	92	89			89,250
Prepaid expenses	4,350	947	74	38		202			5,611
Investments, at fair value									
Equity in Pooled Trust	5,715,519	1,346,707	116,042	60,221	583	286,236			7,525,308
Other-Defined Contribution Plan							514,246	1,887	516,133
Total investments	5,715,519	1,346,707	116,042	60,221	583	286,236	514,246	1,887	8,041,441
Total assets	5,803,423	1,358,627	116,380	60,450	679	286,539	514,246	1,887	8,142,231
<b>Liabilities</b>									
Accounts payable	4,380	751	63	32	125	54			5,405
Due to other plans	10				20				30
Total liabilities	4,390	751	63	32	145	54			5,435
<b>Net position held in trust for pension benefits</b>	<b>\$ 5,799,033</b>	<b>\$ 1,357,876</b>	<b>\$ 116,317</b>	<b>\$ 60,418</b>	<b>\$ 534</b>	<b>\$ 286,485</b>	<b>\$ 514,246</b>	<b>\$ 1,887</b>	<b>\$ 8,136,796</b>

State of Rhode Island and Providence Plantations  
Combining Statement of Changes in Fiduciary Net Position  
Pension Trust Funds  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	Employees' Retirement System	Municipal Employees' Retirement	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	Judicial Retirement Fund Trust	Teachers' Survivors Benefit Plan	Defined Contribution Plan	FICA Alternative Retirement Program	Totals
<b>Additions</b>									
Contributions									
Member contributions	\$ 90,525	\$ 16,806	\$ 2,035	\$ 1,053	\$ 134	\$ 642	\$ 83,417	\$ 1,492	\$ 196,104
Employer contributions	297,638	46,597	4,005	2,410	140	642	26,117		377,549
Supplemental employer contributions	408								408
State contributions for teachers	87,998								87,998
Interest on service credits purchased	109	36							145
Service credit transfers (net)	7,286	6,120							13,406
Total contributions	483,964	69,559	6,040	3,463	274	1,284	109,534	1,492	675,610
Investment income									
Net appreciation (depreciation) in in fair value of investments	(62,217)	(13,048)	(1,003)	(522)	(1)	(2,713)	3,663		(75,841)
Interest	44,070	10,202	861	446	4	2,160			57,743
Dividends	17,228	4,009	340	177	2	849	644		23,249
Other investment income	8,366	1,936	164	85	1	410	8	26	10,996
	7,447	3,099	362	186	6	706	4,315	26	16,147
Less investment expense	15,358	3,570	303	157	1	757			20,146
Net investment income	(7,911)	(471)	59	29	5	(51)	4,315	26	(3,999)
Miscellaneous revenue	39	65					7		111
Total additions	476,092	69,153	6,099	3,492	279	1,233	113,856	1,518	671,722
<b>Deductions</b>									
Retirement benefits	818,821	93,967	4,585	2,531	231	8,097			928,232
Death benefits	2,879	603							3,482
Distributions							9,225		9,225
Refund of contributions	6,306	1,544				196			8,046
Administrative expense	5,723	1,268	102	53		267	1,161	86	8,660
Service credit transfers (net)	7,286	6,120							13,406
Total deductions	841,015	103,502	4,687	2,584	231	8,560	10,386	86	971,051
Net increase (decrease)	(364,923)	(34,349)	1,412	908	48	(7,327)	103,470	1,432	(299,329)
<b>Net position held in trust for pension benefits</b>									
Net position - beginning	6,163,956	1,392,225	114,905	59,510	486	293,812	410,776	455	8,436,125
Net position - ending	\$ 5,799,033	\$ 1,357,876	\$ 116,317	\$ 60,418	\$ 534	\$ 286,485	\$ 514,246	\$ 1,887	\$ 8,136,796

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Other Employee Benefit Trust Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>State Employees</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Totals</b>
<b>Assets</b>							
Cash and cash equivalents	\$ 1,750	\$ 753	\$ 257	\$ 612	\$ 121	\$ 424	\$ 3,917
Advance held by claims processing agent	775						775
Receivables							
Contributions receivable	1,527			255	1	138	1,921
Investments at fair value - equity in pooled trust	117,853	7,617	2,958	28,666	2,508	18,557	178,159
Total assets	121,905	8,370	3,215	29,533	2,630	19,119	184,772
<b>Liabilities</b>							
Accounts payable	605	71	4	56	10	37	783
Incurred but not reported claims	1,143	207	9	166	19	70	1,614
Other	2,249						2,249
Total liabilities	3,997	278	13	222	29	107	4,646
<b>Net position held in trust for other     postemployment benefits</b>	<b>\$ 117,908</b>	<b>\$ 8,092</b>	<b>\$ 3,202</b>	<b>\$ 29,311</b>	<b>\$ 2,601</b>	<b>\$ 19,012</b>	<b>\$ 180,126</b>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Other Employee Benefit Trust Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>State Employees</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Totals</b>
<b>Additions</b>							
Contributions							
Member contributions	\$ 4,587	\$ 1,376	\$ 359	\$ 299	\$ 183	\$ 1,297	\$ 8,101
Employer contributions	40,709	2,321		6,823	27	3,558	53,438
Total contributions	<u>45,296</u>	<u>3,697</u>	<u>359</u>	<u>7,122</u>	<u>210</u>	<u>4,855</u>	<u>61,539</u>
Amortization of advance contributions							
Other income	<u>1,270</u>	<u>144</u>	<u>23</u>	<u>147</u>	<u>23</u>	<u>89</u>	<u>1,696</u>
Investment income							
Net appreciation in fair value of investments	4,469	272	111	1,094	94	705	6,745
Interest and dividends	<u>937</u>	<u>67</u>	<u>26</u>	<u>231</u>	<u>22</u>	<u>148</u>	<u>1,431</u>
	<u>5,406</u>	<u>339</u>	<u>137</u>	<u>1,325</u>	<u>116</u>	<u>853</u>	<u>8,176</u>
Less investment expense	<u>(49)</u>	<u>(3)</u>	<u>(1)</u>	<u>(12)</u>	<u>(1)</u>	<u>(8)</u>	<u>(74)</u>
Net investment income	<u>5,357</u>	<u>336</u>	<u>136</u>	<u>1,313</u>	<u>115</u>	<u>845</u>	<u>8,102</u>
Total additions	<u>51,923</u>	<u>4,177</u>	<u>518</u>	<u>8,582</u>	<u>348</u>	<u>5,789</u>	<u>71,337</u>
<b>Deductions</b>							
Benefits	29,845	2,999	258	3,126	316	1,975	38,519
Administrative expense	<u>63</u>	<u>5</u>		<u>2</u>	<u>1</u>	<u>7</u>	<u>78</u>
Total deductions	<u>29,908</u>	<u>3,004</u>	<u>258</u>	<u>3,128</u>	<u>317</u>	<u>1,982</u>	<u>38,597</u>
Net increase (decrease)	22,015	1,173	260	5,454	31	3,807	32,740
<b>Net position held in trust for other postemployment benefits</b>							
Net position - beginning	95,893	6,919	2,942	23,857	2,570	15,205	147,386
Net position - ending	<u>\$ 117,908</u>	<u>\$ 8,092</u>	<u>\$ 3,202</u>	<u>\$ 29,311</u>	<u>\$ 2,601</u>	<u>\$ 19,012</u>	<u>\$ 180,126</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Private Purpose Trust Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Tuition Savings Program</b>	<b>Touro Jewish Synagogue</b>	<b>Totals</b>
<b>Assets</b>			
Receivables			
Plan participant units sold	\$ 9,125	\$	\$ 9,125
Program investments sold	1,986		1,986
Other	328		328
Total receivables	<u>11,439</u>		<u>11,439</u>
Investments, at fair value	<u>6,693,485</u>	<u>2,542</u>	<u>6,696,027</u>
Total assets	<u>6,704,924</u>	<u>2,542</u>	<u>6,707,466</u>
<b>Liabilities</b>			
Accounts payable	<u>17,398</u>		<u>17,398</u>
Total liabilities	<u>17,398</u>		<u>17,398</u>
<b>Net position</b>			
Restricted for:			
Tuition Savings Program	6,687,526		6,687,526
Other		2,542	2,542
Total net position	<u>\$ 6,687,526</u>	<u>\$ 2,542</u>	<u>\$ 6,690,068</u>



**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Private Purpose Trusts**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	<b>Tuition Savings Program</b>	<b>Touro Jewish Synagogue</b>	<b>Totals</b>
<b>Additions</b>			
Program participant subscriptions	\$ 765,916	\$	\$ 765,916
Investment income			
Net appreciation (depreciation) in fair value of investments	(294,929)	(181)	(295,110)
Dividends	214,328	42	214,370
Other investment income		145	145
Total additions	<u>685,315</u>	<u>6</u>	<u>685,321</u>
<b>Deductions</b>			
Program participant redemptions	1,351,248		1,351,248
Administrative expense	63,856	119	63,975
Total deductions	<u>1,415,104</u>	<u>119</u>	<u>1,415,223</u>
Change in net position:			
Tuition Savings Program	(729,789)		(729,789)
Other		(113)	(113)
Net position - beginning as restated	7,417,315	2,655	7,419,970
Net position - ending	<u><u>\$ 6,687,526</u></u>	<u><u>\$ 2,542</u></u>	<u><u>\$ 6,690,068</u></u>

## Agency Funds

**Agency Funds** – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

**HealthSource RI Trust**– accounts for health and dental insurance premium payments from qualified employers and individuals, and payments for such premiums to issuers of qualified health and dental insurance plans offered through HealthSource RI.

**RIPTA Health** – accounts for contributions on behalf of the employees and retirees from the Rhode Island Public Transit Authority.

**Statutory Deposits** – accounts for deposits required from financial institutions, principally insurance companies, doing business within the State.

**Court Deposits** – accounts for deposits held by various State courts pending resolution of litigation between two or more parties.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Expressed in Thousands)**

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>HealthSource RI Trust</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,935	\$ 84,123	\$ 83,530	\$ 2,528
<b>Total assets</b>	<b>\$ 1,935</b>	<b>\$ 84,123</b>	<b>\$ 83,530</b>	<b>\$ 2,528</b>
<b>Liabilities</b>				
Deposits held for others	\$ 1,839	\$ 83,542	\$ 82,889	\$ 2,492
Accounts payable	96	581	641	36
<b>Total liabilities</b>	<b>\$ 1,935</b>	<b>\$ 84,123</b>	<b>\$ 83,530</b>	<b>\$ 2,528</b>
<b>RIPTA Health Fund</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,479	\$ 27,577	\$ 27,152	\$ 1,904
Receivables	2,881	3,667	3,609	2,939
<b>Total assets</b>	<b>\$ 4,360</b>	<b>\$ 31,244</b>	<b>\$ 30,761</b>	<b>\$ 4,843</b>
<b>Liabilities</b>				
Deposits held for others	\$ 1,184	\$ 557	\$	\$ 1,741
Accounts payable	3,176	15,290	15,364	3,102
<b>Total liabilities</b>	<b>\$ 4,360</b>	<b>\$ 15,847</b>	<b>\$ 15,364</b>	<b>\$ 4,843</b>
<b>Statutory Deposits</b>				
<b>Assets</b>				
Deposits held as security for entities doing business in the State	\$ 54,841	\$ 8,487	\$ 6,116	\$ 57,212
<b>Total assets</b>	<b>\$ 54,841</b>	<b>\$ 8,487</b>	<b>\$ 6,116</b>	<b>\$ 57,212</b>
<b>Liabilities</b>				
Deposits held for others	\$ 54,841	\$ 8,487	\$ 6,116	\$ 57,212
<b>Total liabilities</b>	<b>\$ 54,841</b>	<b>\$ 8,487</b>	<b>\$ 6,116</b>	<b>\$ 57,212</b>
<b>Court Deposits</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 12,589	\$ 6,697	\$ 8,836	\$ 10,450
Receivables		2,914	2,914	
<b>Total assets</b>	<b>\$ 12,589</b>	<b>\$ 9,611</b>	<b>\$ 11,750</b>	<b>\$ 10,450</b>
<b>Liabilities</b>				
Deposits held for others	\$ 12,578	\$ 2,836	\$ 5,002	\$ 10,412
Accounts payable	11	2,142	2,115	38
<b>Total liabilities</b>	<b>\$ 12,589</b>	<b>\$ 4,978</b>	<b>\$ 7,117</b>	<b>\$ 10,450</b>
<b>Total - All Agency Funds</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 16,003	\$ 118,397	\$ 119,518	\$ 14,882
Deposits held as security for entities doing business in the State	54,841	8,487	6,116	57,212
Receivables	2,881	6,581	6,523	2,939
<b>Total assets</b>	<b>\$ 73,725</b>	<b>\$ 133,465</b>	<b>\$ 132,157</b>	<b>\$ 75,033</b>
<b>Liabilities</b>				
Deposits held for others	\$ 70,442	\$ 95,422	\$ 94,007	\$ 71,857
Accounts payable	3,283	18,013	18,120	3,176
<b>Total liabilities</b>	<b>\$ 73,725</b>	<b>\$ 113,435</b>	<b>\$ 112,127</b>	<b>\$ 75,033</b>

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Nonmajor Component Units**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>CFSD</b>	<b>The Met</b>	<b>DHEA</b>	<b>RIHMFC</b>	<b>RIIFC</b>	<b>RIIRBA</b>
<b>Assets and deferred outflows of resources</b>						
Current Assets:						
Cash and cash equivalents	\$ 2,645	\$ 10,445	\$	\$ 2,569	\$ 350	\$ 1,753
Investments			400			
Receivables (net)		962	350	1,262		1
Restricted assets:						
Cash and cash equivalents			34,905	185,418		
Investments	1,581			11,271		
Receivables (net)	168					
Other assets				38,247		
Due from primary government	2,163	519	3,539			
Due from other governments				619		
Due from other component units					82	
Inventories						
Other assets	10	19	344	3,456		3
Total current assets	<u>6,567</u>	<u>11,945</u>	<u>39,538</u>	<u>242,842</u>	<u>432</u>	<u>1,757</u>
Noncurrent Assets:						
Investments						
Receivables (net)				11,459		
Restricted assets:						
Cash and cash equivalents			631			
Investments				207,878		
Receivables (net)						
Other assets	3,938			1,390,857		
Capital assets - nondepreciable			192			
Capital assets - depreciable (net)	2,682	430	1,058			
Due from other component units						
Other assets, net of amortization				150,374		
Total noncurrent assets	<u>6,620</u>	<u>430</u>	<u>1,881</u>	<u>1,760,568</u>		
Total assets	<u>13,187</u>	<u>12,375</u>	<u>41,419</u>	<u>2,003,410</u>	<u>432</u>	<u>1,757</u>
<b>Deferred outflows of resources</b>	<u>8,379</u>		<u>147</u>	<u>2,902</u>		
<b>Liabilities and deferred inflows of resources</b>						
Current liabilities:						
Accounts payable	2,995	1,719	1,041	399	39	9
Due to other component units					16	92
Unearned revenue		330			5	
Other liabilities			48	163,148		
Current portion of long-term debt	208	40		115,092		453
Total current liabilities	<u>3,203</u>	<u>2,089</u>	<u>1,089</u>	<u>278,639</u>	<u>60</u>	<u>554</u>
Noncurrent liabilities:						
Unearned revenue					39	
Notes payable				30,701		
Loans payable						
Obligations under capital leases	66					
Net pension liability	31,875		2,954			
Net OPEB obligation	7,966			4,158		
Other liabilities			1,704	210,074		1,452
Compensated absences	793		112	1,369		
Bonds payable				1,180,770		
Total noncurrent liabilities	<u>40,700</u>		<u>4,770</u>	<u>1,427,072</u>	<u>39</u>	<u>1,452</u>
Total liabilities	<u>43,903</u>	<u>2,089</u>	<u>5,859</u>	<u>1,705,711</u>	<u>99</u>	<u>2,006</u>
<b>Deferred inflows of resources</b>	<u>4,128</u>		<u>350</u>			
<b>Net position (deficit)</b>						
Net investment in capital assets	2,463	390	1,250	8,701		
Restricted for:						
Debt				210,156		
Other	1,581	116	34,107	1,922		
Unrestricted	(30,509)	9,780		79,822	333	(249)
Net position (deficit)	<u>\$ (26,465)</u>	<u>\$ 10,286</u>	<u>\$ 35,357</u>	<u>\$ 300,601</u>	<u>\$ 333</u>	<u>\$ (249)</u>

(continued)

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Nonmajor Component Units**  
**June 30, 2016**  
**(Expressed in Thousands)**

	<b>RIRRC</b>	<b>QDC</b>	<b>RIIB</b>	<b>RIHEBC</b>	<b>Totals</b>
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 31,955	\$ 774	\$ 32,010	\$ 1,033	\$ 83,534
Investments				9,493	9,893
Receivables (net)	7,041	1,541	11,424	294	22,875
Restricted assets:					
Cash and cash equivalents		953	217,241	21,893	460,410
Investments			80,725		93,577
Receivables (net)			67,056	262	67,486
Other assets					38,247
Due from primary government					6,221
Due from other governments					619
Due from other component units		235			317
Inventories	3,603				3,603
Other assets	437	109		43	4,421
Total current assets	<u>43,036</u>	<u>3,612</u>	<u>408,456</u>	<u>33,018</u>	<u>791,203</u>
Noncurrent Assets:					
Investments				240	240
Receivables (net)		114		931	12,504
Restricted assets:					
Cash and cash equivalents	2,473				3,104
Investments	90,785				298,663
Receivables (net)			1,043,990	2,138	1,046,128
Other assets					1,394,795
Capital assets - nondepreciable	33,056	59,132			92,380
Capital assets - depreciable (net)	41,278	113,501	125	28	159,102
Due from other component units		1,478			1,478
Other assets, net of amortization	4,496				154,870
Total noncurrent assets	<u>172,088</u>	<u>174,225</u>	<u>1,044,115</u>	<u>3,337</u>	<u>3,163,264</u>
Total assets	<u>215,124</u>	<u>177,837</u>	<u>1,452,571</u>	<u>36,355</u>	<u>3,954,467</u>
<b>Deferred outflows of resources</b>		<u>724</u>	<u>7,553</u>		<u>19,705</u>
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	7,801	1,089	563	189	15,844
Due to other component units					108
Unearned revenue		1,078			1,413
Other liabilities	5,606		9,332	4,079	182,213
Current portion of long-term debt	4,075	1,775	58,010		179,653
Total current liabilities	<u>17,482</u>	<u>3,942</u>	<u>67,905</u>	<u>4,268</u>	<u>379,231</u>
Noncurrent liabilities:					
Unearned revenue		191			230
Notes payable	2,893				33,594
Loans payable		3,522			3,522
Obligations under capital leases		332			398
Net pension liability		2			34,831
Net OPEB obligation	664				12,788
Other liabilities	91,545		425		305,200
Compensated absences					2,274
Bonds payable	25,318	3,917	802,913		2,012,918
Total noncurrent liabilities	<u>120,420</u>	<u>7,964</u>	<u>803,338</u>		<u>2,405,755</u>
Total liabilities	<u>137,902</u>	<u>11,906</u>	<u>871,243</u>	<u>4,268</u>	<u>2,784,986</u>
<b>Deferred inflows of resources</b>		<u>503</u>	<u>1,104</u>		<u>6,085</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	54,332	163,088	125	28	230,377
Restricted for:					
Debt					210,156
Other	2,052		531,687	20,215	591,680
Unrestricted	20,838	3,064	55,965	11,844	150,888
Net position (deficit)	<u>\$ 77,222</u>	<u>\$ 166,152</u>	<u>\$ 587,777</u>	<u>\$ 32,087</u>	<u>\$ 1,183,101</u>
					(concluded)

State of Rhode Island and Providence Plantations  
Combining Statement of Activities  
Nonmajor Component Units  
For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	CFSD	The Met	DHEA	RIHMFC	RIIFC	RIIRBA	RIRRC	QDC	RIIB	RIHEBC	Totals
<b>Expenses</b>	\$ 50,661	\$ 15,104	\$ 17,371	\$ 110,539	\$ 68	\$ 544	\$ 53,780	\$ 11,988	\$ 37,242	\$ 3,648	\$ 300,945
<b>Program revenues:</b>											
Charges for services	309	5,413	6,112	93,250	43	94	55,240	12,121	6,955	2,433	181,970
Operating grants and contributions	47,025	11,770	8,027	18,622					3,140	21,194	109,778
Capital grants and contributions								517	41,959		42,476
Total program revenues	47,334	17,183	14,139	111,872	43	94	55,240	12,638	52,054	23,627	334,224
Net (Expenses) Revenues	(3,327)	2,079	(3,232)	1,333	(25)	(450)	1,460	650	14,812	19,979	33,279
<b>General revenues:</b>											
Interest and investment earnings		16	125	5,692		7	3,045	8	31,300	75	40,268
Miscellaneous revenues	1,045	44	116				2,464				3,669
Total general revenues	1,045	60	241	5,692		7	5,509	8	31,300	75	43,937
<b>Special items</b>			38,348								38,348
Change in net position	(2,282)	2,139	35,357	7,025	(25)	(443)	6,969	658	46,112	20,054	115,564
<b>Net position (deficit) - beginning as restated</b>	(24,183)	8,147		293,576	358	194	70,253	165,494	541,665	12,033	1,067,537
<b>Net position (deficit) - ending</b>	\$ (26,465)	\$ 10,286	\$ 35,357	\$ 300,601	\$ 333	\$ (249)	\$ 77,222	\$ 166,152	\$ 587,777	\$ 32,087	\$ 1,183,101

# State of Rhode Island



## Statistical Section

**Comprehensive Annual Financial Report**

*for the year ended June 30, 2016*

**2016**

## Statistical Section

### Index

This part of the State's comprehensive annual financial report presents detailed information as to the context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

	<u>Page</u>
<b>Financial Trends Information</b>	<b>207</b>
These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	
<b>Revenue Capacity Information</b>	<b>213</b>
These schedules contain information to help the reader assess the State's most significant taxes, income and sales.	
<b>Debt Capacity Information</b>	<b>220</b>
These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	<b>222</b>
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
<b>Operating Information</b>	<b>224</b>
These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant year.

*Note: When applicable, financial data has been reported at restated amounts in the Statistical Section.*



**State of Rhode Island and Providence Plantations**  
**Schedule of Net Position by Components**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
Net investment in capital assets	\$ 3,063,627	\$ 2,934,439	\$ 2,706,209	\$ 2,486,783	\$ 2,302,368	\$ 2,115,001	\$ 2,064,231	\$ 1,958,718	\$ 1,877,872	\$ 1,691,793
Restricted *	741,971	841,777	799,274	775,758	696,743	553,421	538,104	507,999	496,630	373,788
Unrestricted *	(4,306,312)	(4,380,849)	(4,454,382)	(1,436,799)	(1,458,163)	(1,529,992)	(1,644,279)	(1,622,296)	(1,498,314)	(1,082,664)
Total governmental activities net position	<u>\$ (500,714)</u>	<u>\$ (604,633)</u>	<u>\$ (948,899)</u>	<u>\$ 1,825,742</u>	<u>\$ 1,540,948</u>	<u>\$ 1,138,430</u>	<u>\$ 958,056</u>	<u>\$ 844,421</u>	<u>\$ 876,188</u>	<u>\$ 982,917</u>
Business-type activities										
Net investment in capital assets	\$ (57,493)	\$ (61,956)	\$ (62,060)	\$ (67,394)	\$ (64,492)	\$ (63,156)	\$ (61,806)	\$ (59,453)	\$ (60,902)	\$ (109,435)
Restricted	283,901	155,682	33,795	8,340	9,308	11,036	13,161	20,130	198,928	294,395
Unrestricted	(19,970)	(21,312)	(19,991)	(86,571)	(157,396)	(159,388)	(122,955)	(7,251)	(15,345)	(16,616)
Total business-type activities net position	<u>\$ 206,438</u>	<u>\$ 72,414</u>	<u>\$ (48,256)</u>	<u>\$ (145,625)</u>	<u>\$ (212,580)</u>	<u>\$ (211,508)</u>	<u>\$ (171,600)</u>	<u>\$ (46,574)</u>	<u>\$ 122,681</u>	<u>\$ 168,344</u>
Primary government										
Net investment in capital assets	\$ 3,006,134	\$ 2,872,483	\$ 2,644,149	\$ 2,419,389	\$ 2,237,876	\$ 2,051,845	\$ 2,002,425	\$ 1,899,265	\$ 1,816,970	\$ 1,582,358
Restricted *	1,025,872	997,459	833,069	784,098	706,051	473,787	497,092	440,345	626,516	668,183
Unrestricted *	(4,326,282)	(4,402,161)	(4,474,373)	(1,523,370)	(1,615,559)	(1,598,710)	(1,713,061)	(1,541,763)	(1,444,617)	(1,099,280)
Total primary government net position	<u>\$ (294,276)</u>	<u>\$ (532,219)</u>	<u>\$ (997,155)</u>	<u>\$ 1,680,117</u>	<u>\$ 1,328,368</u>	<u>\$ 926,922</u>	<u>\$ 786,456</u>	<u>\$ 797,847</u>	<u>\$ 998,869</u>	<u>\$ 1,151,261</u>

\* Reclassifications from fiscal years 2010 through 2015 were made to conform with current presentation.

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Position**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Expenses</b>										
Governmental activities:										
General government	\$ 769,469	\$ 695,611	\$ 736,911	\$ 625,081	\$ 653,003	\$ 644,194	\$ 741,329	\$ 754,386	\$ 894,766	\$ 858,729
Human services	3,652,875	3,631,236	3,302,590	3,038,841	2,970,269	3,013,081	2,900,673	2,719,346	2,736,956	2,519,745
Education	1,595,289	1,472,786	1,399,347	1,364,575	1,334,355	1,332,453	1,273,985	1,278,391	1,361,310	1,320,384
Public safety	545,329	478,854	478,826	473,580	468,098	436,940	418,485	414,830	428,351	391,354
Natural resources	87,537	83,979	80,690	76,730	85,039	80,360	73,551	75,103	90,087	91,758
Transportation	343,270	283,085	298,626	300,639	268,523	300,366	305,460	324,007	240,644	281,518
Intergovernmental										
Interest and other charges	83,899	121,845	129,421	129,714	145,964	148,850	142,924	136,737	133,298	107,211
Total governmental activities	7,077,668	6,767,396	6,426,411	6,009,160	5,925,251	5,956,244	5,856,407	5,702,800	5,885,412	5,570,699
Business-type activities:										
Lottery	507,199	484,293	462,153	397,625	399,421	368,870	358,127	356,046	365,333	342,662
Convention Center	48,905	48,628	49,255	48,437	49,439	32,986	50,732	48,764	41,007	42,859
Employment Security	157,018	167,527	257,145	396,909	559,440	645,979	783,878	573,288	259,246	210,060
Total business-type activities	713,122	700,448	768,553	842,971	1,008,300	1,047,835	1,192,737	978,098	665,586	595,581
Total primary government expenses	\$ 7,790,790	\$ 7,467,844	\$ 7,194,964	\$ 6,852,131	\$ 6,933,551	\$ 7,004,079	\$ 7,049,144	\$ 6,680,898	\$ 6,550,998	\$ 6,166,280
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 229,659	\$ 209,005	\$ 212,275	\$ 220,376	\$ 212,750	\$ 185,918	\$ 179,646	\$ 168,210	\$ 178,590	\$ 132,152
Human services	266,091	246,604	229,047	227,158	204,287	210,905	198,555	187,973	167,241	125,901
Education	29,749	29,775	27,617	26,840	26,044	22,022	18,263	8,335	36,241	11,180
Public safety	45,245	39,709	44,192	47,075	37,339	34,389	35,272	32,770	36,194	49,821
Natural resources	28,655	29,258	27,259	28,975	26,060	29,046	29,746	31,385	31,753	31,932
Transportation	25,354	22,806	7,199	1,076	1,660	372	744	181	(207)	875
Operating grants and contributions	2,677,431	2,666,243	2,403,772	2,211,800	2,194,892	2,387,540	2,361,446	2,114,821	1,827,704	1,716,318
Capital grants and contributions	178,628	217,604	228,649	190,551	210,720	162,032	162,090	103,515	112,712	151,528
Total governmental activities program revenues	3,480,812	3,461,004	3,180,010	2,953,851	2,913,752	3,032,224	2,985,762	2,647,190	2,390,228	2,219,707
Business-type activities:										
Charges for services	1,177,083	1,163,752	1,127,206	1,055,070	1,056,285	985,556	947,825	913,333	923,694	883,893
Operating grants and contributions	1,558	839	53,146	166,164	278,671	358,932	418,270	194,857	3,285	4,607
Total business-type activities program revenues	1,178,641	1,164,591	1,180,352	1,221,234	1,334,956	1,344,488	1,366,095	1,108,190	926,979	888,500
Total primary government program revenues	\$ 4,659,453	\$ 4,625,595	\$ 4,360,362	\$ 4,175,085	\$ 4,248,708	\$ 4,376,712	\$ 4,351,857	\$ 3,755,380	\$ 3,317,207	\$ 3,108,207
<b>Net (Expenses)/Revenues</b>										
Governmental activities	\$ (3,596,856)	\$ (3,306,392)	\$ (3,246,401)	\$ (3,055,309)	\$ (3,011,499)	\$ (2,924,020)	\$ (2,870,645)	\$ (3,055,610)	\$ (3,495,184)	\$ (3,350,992)
Business-type activities	465,519	464,143	411,799	378,263	326,656	296,653	173,358	130,092	261,393	292,919
Total primary government net expenses	\$ (3,131,337)	\$ (2,842,249)	\$ (2,834,602)	\$ (2,677,046)	\$ (2,684,843)	\$ (2,627,367)	\$ (2,697,287)	\$ (2,925,518)	\$ (3,233,791)	\$ (3,058,073)

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Position**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>General Revenue and Other Changes in Net Position</b>										
Governmental activities:										
Taxes	\$ 3,266,347	\$ 3,206,935	\$ 2,980,387	\$ 2,870,969	\$ 2,824,368	\$ 2,665,169	\$ 2,577,519	\$ 2,588,417	\$ 2,820,709	\$ 2,842,828
Interest and investment earnings	3,134	3,212	4,852	4,893	4,304	5,561	4,309	9,435	32,466	37,539
Miscellaneous	90,836	107,382	108,398	143,240	118,506	102,478	91,110	95,758	121,273	106,543
Gain on sale of capital assets	4,693	993	953	3,757				1,656	3,026	
Special items		(5,000)								
Transfers	335,765	345,190	332,824	333,804	344,386	331,186	318,772	315,408	324,928	304,906
Payments from component units							7,228	13,569	39,284	10,108
Total governmental activities	<u>3,700,775</u>	<u>3,658,712</u>	<u>3,427,414</u>	<u>3,356,663</u>	<u>3,291,564</u>	<u>3,104,394</u>	<u>2,998,938</u>	<u>3,024,243</u>	<u>3,341,686</u>	<u>3,301,924</u>
Business-type activities:										
Interest and investment earnings	164	186	109	117	94	79	164	4,279	9,531	12,137
Miscellaneous	4,106	1,531	31,208	24,490	16,564	(5,454)	20,224	11,782	8,341	8,137
Transfers	(335,765)	(345,190)	(332,824)	(333,804)	(344,386)	(331,186)	(318,772)	(315,408)	(324,928)	(304,906)
Total business-type activities	<u>(331,495)</u>	<u>(343,473)</u>	<u>(301,507)</u>	<u>(309,197)</u>	<u>(327,728)</u>	<u>(336,561)</u>	<u>(298,384)</u>	<u>(299,347)</u>	<u>(307,056)</u>	<u>(284,632)</u>
Total primary government	<u>3,369,280</u>	<u>3,315,239</u>	<u>3,125,907</u>	<u>3,047,466</u>	<u>2,963,836</u>	<u>2,767,833</u>	<u>2,700,554</u>	<u>2,724,896</u>	<u>3,034,630</u>	<u>3,017,292</u>
<b>Changes in Net Position</b>										
Governmental activities	103,919	352,320	181,013	301,354	280,065	180,374	128,293	(31,367)	(153,498)	(49,068)
Business-type activities	134,024	120,670	110,292	69,066	(1,072)	(39,908)	(125,026)	(169,255)	(45,663)	8,287
Total primary government	<u>\$ 237,943</u>	<u>\$ 472,990</u>	<u>\$ 291,305</u>	<u>\$ 370,420</u>	<u>\$ 278,993</u>	<u>\$ 140,466</u>	<u>\$ 3,267</u>	<u>\$ (200,622)</u>	<u>\$ (199,161)</u>	<u>\$ (40,781)</u>
										(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year						
	2016	2015	2014	2013	2012	2011	2010
General Fund							
Nonspendable	\$	\$	\$	\$	\$	\$ 53,353	\$ 49,302
* Restricted	133,193	134,231	120,898	110,178	78,940	67,592	49,624
Unrestricted							
Committed	3,975	2,561	4,770	4,035	22,793	5,956	4,285
Assigned	137,114	130,964	72,005	105,639	97,639	8,425	
* Unassigned	235,096	234,131	197,706	181,282	173,782	135,574	82,239
Total General Fund	<u>\$ 509,378</u>	<u>\$ 501,887</u>	<u>\$ 395,379</u>	<u>\$ 401,134</u>	<u>\$ 373,154</u>	<u>\$ 270,900</u>	<u>\$ 185,450</u>
All Other Governmental Funds							
Nonspendable	\$ 174	\$ 174	\$ 174	\$ 174	\$ 174	\$ 174	\$ 174
** Restricted	614,687	660,845	615,667	660,198	619,799	528,251	681,782
Unrestricted							
** Committed	39,175	10,727	4,118	163	1,742	1,448	3,366
** Assigned				255	318	284	19,704
Unassigned	(1,519)	(1,486)	(4,028)	(4,113)	(4,717)	(5,043)	(6,160)
Total All Other Governmental Funds	<u>\$ 652,517</u>	<u>\$ 670,260</u>	<u>\$ 615,931</u>	<u>\$ 656,677</u>	<u>\$ 617,316</u>	<u>\$ 525,114</u>	<u>\$ 698,866</u>

	Fiscal Year		
	2009	2008	2007
General Fund			
Reserved	\$ 132,245	\$ 149,605	\$ 144,166
Unreserved	(62,286)	(42,950)	
Total General Fund	<u>\$ 69,959</u>	<u>\$ 106,655</u>	<u>\$ 144,166</u>
All Other Governmental Funds			
Reserved	\$ 274,180	\$ 264,727	\$ 260,607
Unreserved, reported in:			
Special Revenue Funds	93,498	7,805	155,482
Permanent Funds	1,368	2,173	1,186
Capital Projects Funds	459,489	303,965	360,026
Total All Other Governmental Funds	<u>\$ 828,535</u>	<u>\$ 578,670</u>	<u>\$ 777,301</u>

Beginning in fiscal year 2010, the fund balance categories were reclassified due to the implementation of GASB Statement 54. Fund balance has not been reclassified for prior years.

\* In fiscal year 2016 it was determined that the State Budget Reserve and Cash Stabilization Account should be Unassigned rather than Restricted. Prior year balances have been restated to agree to this format.

\*\* The 2015 balances were adjusted to agree to the 2016 presentation. There was no effect on years prior to 2015.

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Revenues:</b>										
Taxes	\$ 3,266,616	\$ 3,210,123	\$ 2,975,016	\$ 2,868,503	\$ 2,814,331	\$ 2,664,420	\$ 2,577,406	\$ 2,589,751	\$ 2,818,085	\$ 2,848,284
Licenses, fines, sales, and services	380,376	348,214	332,655	320,767	313,724	308,564	311,040	295,662	323,329	242,743
Departmental restricted revenue	244,754	229,492	223,314	222,027	194,279	174,563	150,357	134,029	125,883	110,059
Federal grants	2,865,006	2,889,963	2,630,678	2,402,444	2,411,262	2,541,335	2,518,048	2,218,816	1,936,610	1,869,336
Income from investments	3,017	3,156	4,809	4,840	4,280	5,537	4,207	9,014	31,522	36,068
Other revenues	100,356	106,872	115,804	147,090	121,202	100,164	93,687	104,665	122,723	103,099
Total operating revenues	6,860,125	6,787,820	6,282,276	5,965,671	5,859,078	5,794,583	5,654,745	5,351,937	5,358,152	5,209,589
<b>Expenditures:</b>										
Current:										
General government	764,066	697,289	656,826	634,010	635,554	620,110	714,861	755,366	803,561	806,865
Human services	3,694,123	3,661,964	3,325,538	3,042,705	2,969,166	3,009,097	2,884,419	2,711,167	2,727,534	2,512,286
Education	1,467,236	1,403,807	1,357,903	1,330,388	1,282,063	1,287,733	1,239,258	1,216,208	1,289,687	1,267,255
Public safety	504,217	490,981	478,108	463,734	459,114	428,687	394,860	401,976	410,605	396,029
Natural resources	78,307	79,941	76,127	70,202	75,156	71,818	67,435	68,941	72,984	81,518
Transportation	386,712	373,715	383,816	373,887	399,512	367,496	306,730	299,881	244,638	310,019
Capital outlays	185,361	171,469	139,848	130,415	111,044	138,843	250,653	215,600	264,713	269,550
Intergovernmental										
Debt service:										
Principal	103,310	190,784	176,885	176,970	164,245	154,475	163,063	157,817	143,368	115,752
Interest and other charges	99,802	140,728	122,663	126,852	135,806	138,066	139,723	132,813	131,575	128,527
Total operating expenditures	7,283,134	7,210,678	6,717,714	6,349,163	6,231,660	6,216,325	6,161,002	5,959,769	6,088,665	5,887,801
Excess (deficiency) of revenues over (under) expenditures	(423,009)	(422,858)	(435,438)	(383,492)	(372,582)	(421,742)	(506,257)	(607,832)	(730,513)	(678,212)

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Other financing sources (uses):</b>										
Issuance of bonds and notes	72,000	121,125	53,150	81,400	145,035		155,665	427,180	131,755	314,852
Issuance of refundings and other escrow assets	459,235	830,139	78,700	88,175	146,730		78,960	12,445	46,570	74,835
Capital leases	5,021	49,495		26,690	31,980			54,610	59,185	45,325
Premium and accrued interest	73,516	82,553	14,719	27,507	45,437		9,839	8,100	7,241	9,930
Transfers in	572,569	622,520	566,076	592,804	581,679	545,229	586,025	622,212	724,428	828,885
Payments from component units							7,228	13,568	39,284	10,108
Payment to refunded bonds escrow agent	(532,780)	(866,168)	(91,991)	(101,172)	(172,094)		(84,769)	(12,697)	(111,253)	(78,198)
Discount on issuance of debt								(66)	(4)	
Proceeds from termination of investment contracts		26,361								
Transfers out	(236,804)	(277,330)	(231,717)	(264,571)	(235,253)	(211,789)	(261,473)	(304,351)	(403,012)	(522,631)
<b>Total other financing sources (uses)</b>	<b>412,757</b>	<b>588,695</b>	<b>388,937</b>	<b>450,833</b>	<b>543,514</b>	<b>333,440</b>	<b>491,475</b>	<b>821,001</b>	<b>494,194</b>	<b>683,106</b>
Special items		(5,000)								
<b>Net change in fund balances</b>	<b>\$ (10,252)</b>	<b>\$ 160,837</b>	<b>\$ (46,501)</b>	<b>\$ 67,341</b>	<b>\$ 170,932</b>	<b>\$ (88,302)</b>	<b>\$ (14,782)</b>	<b>\$ 213,169</b>	<b>\$ (236,319)</b>	<b>\$ 4,894</b>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	<b>3.5%</b>	<b>4.8%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>5.1%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>4.7%</b>

The capital outlay amount used to calculate the percentage is from the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.

Capital outlay	378,935	327,792	360,267	315,644	264,770	230,746	319,509	185,636	227,169	318,076
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A separate calculation has been done to obtain the interest expense.

Interest expense	138,220	138,220	124,498	125,457	131,793	137,768	138,285	126,935	127,987	126,918
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Certain prior year amounts have been reclassified to conform to the current year presentation.

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Taxable Sales by Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

Taxable Sales By Industry:	Calendar Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Grocery, Food Stores, Delis, Bakeries	\$ 1,193.72	\$ 1,162.49	\$ 1,188.56	\$ 1,097.36	\$ 1,091.81	\$ 1,093.34	\$ 1,084.78	\$ 1,080.13	\$ 1,073.75	\$ 1,052.45
Restaurants and Bars	2,472.30	2,310.88	2,198.74	2,113.00	1,983.05	1,939.09	1,874.93	1,860.96	1,912.54	1,803.19
Room Rentals - Motels, Hotels	652.16	503.30	429.10	530.74	388.82	407.15	491.30	587.55	574.25	450.46
Utilities - Telephone, Electric, Gas, Water	591.87	673.23	600.82	617.53	583.28	588.48	589.94	641.09	636.72	668.28
Total	<u>\$ 4,910.05</u>	<u>\$ 4,649.90</u>	<u>\$ 4,417.22</u>	<u>\$ 4,358.63</u>	<u>\$ 4,046.96</u>	<u>\$ 4,028.06</u>	<u>\$ 4,040.95</u>	<u>\$ 4,169.73</u>	<u>\$ 4,197.26</u>	<u>\$ 3,974.38</u>
Direct sales tax rate	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%

Data is presented only for taxable sales of industries tracked by the Division of Taxation.

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income by Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

	Calendar Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Farm Earnings	\$ 23	\$ 21	\$ 16	\$ 15	\$ 15	\$ 14	\$ 17	\$ 17	\$ 17	\$ 23
<b><u>Private Earnings</u></b>										
Forestry, Fishing and Other	(D)	(D)	47	46	(D)	(D)	(D)	40	41	44
Mining	(D)	(D)	18	17	(D)	(D)	(D)	13	18	19
Utilities	172	158	143	150	165	165	160	149	161	131
Construction	1,837	1,747	1,739	1,650	1,575	1,558	1,523	1,565	1,705	1,810
Manufacturing	3,116	3,046	2,835	2,750	2,822	2,797	2,769	2,683	3,062	3,240
Wholesale Trade	1,531	1,510	1,529	1,473	1,394	1,378	1,346	1,309	1,396	1,441
Retail Trade	2,063	1,977	1,861	1,847	1,786	1,811	1,799	1,727	1,804	1,907
Transportation and warehousing	605	591	596	598	558	562	521	500	519	515
Information	1,377	1,383	995	1,050	1,087	1,089	998	953	927	889
Finance and Insurance	3,027	2,975	2,819	2,657	2,702	2,560	2,549	2,262	2,194	2,131
Real Estate and Rental and Leasing	578	544	478	456	380	430	369	350	353	379
Professional, scientific, technical services	2,783	2,621	2,533	2,387	2,305	2,300	2,192	2,201	2,344	2,161
Management of companies and enterprises	1,844	1,602	1,602	1,426	1,247	1,256	1,198	1,054	1,189	1,139
Administrative and waste services	1,335	1,259	1,233	1,122	1,046	1,064	1,015	951	988	973
Educational services	1,404	1,344	1,293	1,235	1,239	1,264	1,244	1,196	1,138	1,072
Health care and social assistance	5,181	5,056	5,039	4,850	4,594	4,742	4,723	4,523	4,362	4,127
Arts, entertainment, and recreation	406	374	333	302	296	291	285	277	286	289
Accommodation and food services	1,277	1,197	1,126	1,072	995	1,001	945	903	949	954
Other services, except public administration	1,229	1,189	1,177	1,135	1,060	1,100	1,084	1,063	1,089	1,166
<b><u>Government and Government Enterprises</u></b>										
Federal/Civilian	1,226	1,160	1,117	1,132	1,200	1,114	1,103	1,031	976	955
Military	470	472	520	509	636	508	513	494	475	447
State and Local	4,225	4,169	4,199	4,162	3,931	4,149	4,140	3,956	4,048	3,936
Total Personal Income by Industry*	<u>\$ 35,709</u>	<u>\$ 34,395</u>	<u>\$ 33,248</u>	<u>\$ 32,040</u>	<u>\$ 31,033</u>	<u>\$ 31,153</u>	<u>\$ 30,491</u>	<u>\$ 29,218</u>	<u>\$ 30,038</u>	<u>\$ 29,748</u>

\* Total Personal Income by Industry may not sum due to inclusion of non-disclosed data in total amount.

Source: US Bureau of Economic Analysis

(D) Not shown to avoid disclosure of confidential information.



**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income Tax Revenue as a Percent of Personal Income**  
**Prior Ten Fiscal Years**  
**(expressed in millions)**

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Personal Income Tax (PIT) Revenue	\$ 1,228	\$ 1,116	\$ 1,086	\$ 1,060	\$ 1,021	\$ 898	\$ 941	\$ 1,074	\$ 1,065	\$ 997
Personal Income	52,006	49,683	49,434	48,184	46,881	45,268	43,471	44,144	43,126	41,258
PIT Revenue as a Percent of Personal Income	2.36%	2.25%	2.20%	2.20%	2.18%	1.98%	2.16%	2.43%	2.47%	2.42%

Source: Office of Revenue Analysis  
*Includes wages, interest, dividends, rents,  
pensions and transfer payments.*

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income Tax Rates**  
**Prior Ten Calendar Years**

Tax Rates on the Portion of Taxable Income in Ranges						
Tax Year 2015 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - \$60,550	4.75% \$60,550 - \$137,650	5.99% over \$137,650		
Tax Year 2014 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - \$59,600	4.75% \$59,600 - \$133,500	5.99% over \$133,500		
Tax Year 2013 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - \$8,600	4.75% \$58,600 - \$133,250	5.99% over \$133,250		
Tax Year 2012 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - \$7,150	4.75% \$57,150 - \$129,900	5.99% over \$129,900		
Tax Year 2011 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - \$5,000	4.75% \$55,000 - 125,000	5.99% over \$125,000		
Tax Year 2010 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 34,000	7.00% \$34,000 - 82,400	7.75% \$82,400 - 171,850	9.00% \$171,850 - 373,650	9.90% over \$ 373,650
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 56,800	7.00% \$ 56,800 - 137,300	7.75% \$ 137,300 - 209,250	9.00% \$ 209,250 - 373,650	9.90% over \$ 373,650
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 28,400	7.00% \$ 28,400 - 68,650	7.75% \$ 68,650 - 104,625	9.00% \$104,625 - 186,825	9.90% over \$ 186,825
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 45,550	7.00% \$ 45,550 - 117,650	7.75% \$ 117,650 - 190,550	9.00% 190,550 - 373,650	9.90% over \$373,650
Tax Year 2009 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 33,950	7.00% \$ 33,950 - 82,250	7.75% \$ 82,250 - 171,550	9.00% \$ 171,550 - 372,950	9.90% over \$ 372,950
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 56,700	7.00% \$ 56,700 - 137,050	7.75% \$ 137,050 - 208,850	9.00% \$ 208,850 - 372,950	9.90% over \$ 372,950
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 28,350	7.00% \$ 28,350 - 68,525	7.75% \$ 68,525 - 104,425	9.00% \$104,425 - 186,475	9.90% over \$ 186,475
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 45,500	7.00% \$ 45,500 - 117,450	7.75% \$ 117,450 - 190,200	9.00% 190,200 - 372,950	9.90% over \$372,950
Tax Year 2008 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 32,550	7.00% \$32,550 - 78,850	7.75% \$ 78,850 - 164,550	9.00% \$ 164,550 - 357,700	9.90% over \$ 357,700
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 54,400	7.00% \$ 54,400 - 131,450	7.75% \$ 131,450 - 200,300	9.00% \$ 200,300 - 357,700	9.90% over \$ 357,700
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 27,200	7.00% \$ 27,200 - 65,725	7.75% \$ 65,725 - 100,150	9.00% \$100,150 - 178,850	9.90% over \$ 178,850
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 43,650	7.00% \$ 43,650 - 112,650	7.75% \$ 112,650 - 182,400	9.00% 182,400 - 357,700	9.90% over \$357,700

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income Tax Rates**  
**Prior Ten Calendar Years**

Tax Year 2007						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 31,850	\$31,850 - 77,100	\$ 77,100 - 160,850	\$ 160,850 - 349,700	over \$ 349,700
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 53,150	\$ 53,150 - 128,500	\$ 128,500 - 195,850	\$ 195,850 - 349,700	over \$ 349,700
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 26,575	\$ 26,575 - 64,250	\$ 64,250 - 97,925	\$ 97,925 - 174,850	over \$ 174,850
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 42,650	\$ 42,650 - 110,100	\$ 110,100 - 178,350	\$ 178,350 - 349,700	over \$ 349,700

Tax Year 2006						
Single Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 30,650	\$30,650 - 74,200	\$ 74,200 - 154,800	\$ 154,800 - 336,550	over \$ 336,550
Married Filing Joint Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 51,200	\$ 51,200 - 123,700	\$ 123,700 - 188,450	\$ 188,450 - 336,550	over \$ 336,550
Married Filing Separate Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 25,600	\$ 25,600 - 61,850	\$ 61,850 - 94,225	\$ 94,225 - 168,275	over \$ 168,275
Head of Household Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 41,050	\$ 41,050 - 106,000	\$ 106,000 - 171,650	\$ 171,650 - 336,550	over \$ 336,550

Source: *Department of Revenue - Division of Taxation*

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
**Tax Years 2005 through 2014**

<u>Tax Year 2014</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	185,935	37.55%	\$ 14,665,246	1.34%
\$25,001 - \$50,000	114,881	23.21%	82,902,886	7.56%
\$50,001 - \$75,000	68,668	13.87%	109,495,169	10.00%
\$75,001 - \$100,000	44,097	8.91%	109,097,854	9.96%
\$100,001 - \$200,000	63,469	12.82%	296,654,641	27.08%
\$200,001 - \$500,000	14,888	3.01%	216,813,938	19.79%
\$500,001 - \$1,000,000	2,126	0.43%	80,900,417	7.39%
\$1,000,001 and greater	972	0.20%	184,862,456	16.88%
	<u>495,036</u>	<u>100.00%</u>	<u>\$ 1,095,392,607</u>	<u>100.00%</u>

<u>Tax Year 2013</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	186,349	38.18%	\$ 15,089,983	1.50%
\$25,001 - \$50,000	113,558	23.26%	82,381,470	8.17%
\$50,001 - \$75,000	67,598	13.85%	107,951,957	10.70%
\$75,001 - \$100,000	43,910	8.99%	109,078,637	10.82%
\$100,001 - \$200,000	60,524	12.40%	284,258,122	28.18%
\$200,001 - \$500,000	13,449	2.75%	197,666,346	19.60%
\$500,001 - \$1,000,000	1,977	0.40%	75,753,497	7.51%
\$1,000,001 and greater	825	0.17%	136,376,437	13.52%
	<u>488,190</u>	<u>100.00%</u>	<u>\$ 1,008,556,449</u>	<u>100.00%</u>

<u>Tax Year 2012</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	185,433	38.34%	\$ 15,788,095	1.55%
\$25,001 - \$50,000	114,123	23.61%	83,752,980	8.24%
\$50,001 - \$75,000	67,181	13.90%	107,779,597	10.60%
\$75,001 - \$100,000	43,316	8.96%	108,406,641	10.66%
\$100,001 - \$200,000	58,008	12.00%	273,640,681	26.93%
\$200,001 - \$500,000	12,612	2.61%	186,607,713	18.36%
\$500,001 - \$1,000,000	1,863	0.39%	72,200,723	7.10%
\$1,000,001 and greater	901	0.19%	168,326,180	16.56%
	<u>483,437</u>	<u>100.00%</u>	<u>\$ 1,016,502,611</u>	<u>100.00%</u>

<u>Tax Year 2011</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	187,194	38.94%	\$ 16,926,831	1.75%
\$25,001 - \$50,000	113,669	23.64%	85,575,958	8.82%
\$50,001 - \$75,000	67,075	13.95%	108,935,845	11.23%
\$75,001 - \$100,000	42,991	8.94%	109,489,374	11.29%
\$100,001 - \$200,000	56,062	11.66%	270,444,262	27.88%
\$200,001 - \$500,000	11,501	2.39%	171,575,565	17.69%
\$500,001 - \$1,000,000	1,582	0.33%	61,270,009	6.32%
\$1,000,001 and greater	714	0.15%	145,706,695	15.02%
	<u>480,788</u>	<u>100.00%</u>	<u>\$ 969,924,538</u>	<u>100.00%</u>

<u>Tax Year 2010</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	179,885	38.65%	\$ 20,705,060	2.32%
\$25,001 - \$50,000	112,371	24.14%	86,321,200	9.65%
\$50,001 - \$75,000	66,255	14.24%	111,244,636	12.44%
\$75,001 - \$100,000	41,956	9.01%	109,185,357	12.21%
\$100,001 - \$200,000	52,857	11.36%	271,103,111	30.32%
\$200,001 - \$500,000	10,147	2.18%	146,038,132	16.33%
\$500,001 - \$1,000,000	1,337	0.29%	46,337,234	5.18%
\$1,000,001 and greater	626	0.13%	103,258,427	11.55%
	<u>465,434</u>	<u>100.00%</u>	<u>\$ 894,193,156</u>	<u>100.00%</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
**Tax Years 2005 through 2014**

<u>Tax Year 2009</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	183,072	39.17%	\$ 21,585,517	2.56%
\$25,001 - \$50,000	112,295	24.02%	86,815,876	10.28%
\$50,001 - \$75,000	67,079	14.35%	111,368,728	13.19%
\$75,001 - \$100,000	42,121	9.01%	107,753,288	12.76%
\$100,001 - \$200,000	51,242	10.96%	256,844,961	30.41%
\$200,001 - \$500,000	9,771	2.09%	143,328,323	16.97%
\$500,001 - \$1,000,000	1,312	0.28%	48,180,994	5.71%
\$1,000,001 and greater	547	0.12%	68,608,744	8.12%
	<u>467,439</u>	<u>100.00%</u>	<u>\$ 844,486,431</u>	<u>100.00%</u>

<u>Tax Year 2008</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	183,393	38.55%	\$ 21,961,360	2.34%
\$25,001 - \$50,000	115,125	24.20%	90,541,402	9.63%
\$50,001 - \$75,000	68,636	14.43%	114,674,809	12.20%
\$75,001 - \$100,000	43,504	9.14%	113,195,561	12.05%
\$100,001 - \$200,000	52,290	10.99%	265,674,573	28.28%
\$200,001 - \$500,000	10,588	2.23%	160,823,729	17.11%
\$500,001 - \$1,000,000	1,541	0.32%	63,650,231	6.77%
\$1,000,001 and greater	682	0.14%	109,196,985	11.62%
	<u>475,759</u>	<u>100.00%</u>	<u>\$ 939,718,650</u>	<u>100.00%</u>

<u>Tax Year 2007</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	188,813	39.06%	\$ 23,474,554	2.31%
\$25,001 - \$50,000	117,159	24.23%	93,066,232	9.14%
\$50,001 - \$75,000	69,086	14.29%	115,072,079	11.30%
\$75,001 - \$100,000	43,392	8.98%	113,148,145	11.11%
\$100,001 - \$200,000	51,045	10.56%	257,934,287	25.33%
\$200,001 - \$500,000	11,187	2.31%	169,393,520	16.64%
\$500,001 - \$1,000,000	1,769	0.37%	72,958,570	7.17%
\$1,000,001 and greater	981	0.20%	173,123,590	17.00%
	<u>483,432</u>	<u>100.00%</u>	<u>\$ 1,018,170,977</u>	<u>100.00%</u>

<u>Tax Year 2006</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	186,777	39.30%	\$ 24,824,956	2.41%
\$25,001 - \$50,000	117,943	24.81%	95,815,612	9.30%
\$50,001 - \$75,000	68,647	14.44%	115,882,393	11.25%
\$75,001 - \$100,000	42,285	8.90%	112,897,362	10.96%
\$100,001 - \$200,000	46,714	9.83%	242,469,428	23.54%
\$200,001 - \$500,000	10,339	2.17%	163,620,232	15.89%
\$500,001 - \$1,000,000	1,735	0.36%	77,989,258	7.57%
\$1,000,001 and greater	917	0.19%	196,466,444	19.08%
	<u>475,357</u>	<u>100.00%</u>	<u>\$ 1,029,965,685</u>	<u>100.00%</u>

<u>Tax Year 2005</u>				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	191,229	40.42%	\$ 26,586,050	2.73%
\$25,001 - \$50,000	117,944	24.92%	97,782,614	10.05%
\$50,001 - \$75,000	68,732	14.53%	117,073,474	12.03%
\$75,001 - \$100,000	40,758	8.62%	111,028,948	11.41%
\$100,001 - \$200,000	42,311	8.94%	222,774,255	22.88%
\$200,001 - \$500,000	9,644	2.04%	157,005,466	16.13%
\$500,001 - \$1,000,000	1,655	0.35%	76,436,571	7.85%
\$1,000,001 and greater	828	0.18%	164,689,396	16.92%
	<u>473,101</u>	<u>100.00%</u>	<u>\$ 973,376,774</u>	<u>100.00%</u>

Source: Department of Revenue - Division of Taxation

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities										
General obligation bonds	\$ 1,051,810	\$ 1,022,895	\$ 1,074,750	\$ 1,103,945	\$ 1,110,585	\$ 1,049,400	\$ 1,118,030	\$ 1,036,189	\$ 997,398	\$ 916,531
Revenue bonds (blended component units)	695,046	716,201	744,821	765,161	779,426	795,161	807,731	828,481	867,776	902,871
Capital leases	214,321	235,130	207,595	232,975	233,800	224,045	244,805	269,340	236,060	256,865
Special purpose bonds	391,240	435,600	415,955	468,730	519,060	567,190	613,355	658,550	358,065	390,110
Total governmental activities	<u>2,352,417</u>	<u>2,409,826</u>	<u>2,443,121</u>	<u>2,570,811</u>	<u>2,642,871</u>	<u>2,635,796</u>	<u>2,783,921</u>	<u>2,792,560</u>	<u>2,459,299</u>	<u>2,466,377</u>
Business-type Activities										
Revenue bonds	<u>203,880</u>	<u>215,210</u>	<u>226,900</u>	<u>236,960</u>	<u>250,510</u>	<u>259,620</u>	<u>268,280</u>	<u>275,810</u>	<u>270,960</u>	<u>279,935</u>
Total primary government	<u>\$ 2,556,297</u>	<u>\$ 2,625,036</u>	<u>\$ 2,670,021</u>	<u>\$ 2,807,771</u>	<u>\$ 2,893,381</u>	<u>\$ 2,895,416</u>	<u>\$ 3,052,201</u>	<u>\$ 3,068,370</u>	<u>\$ 2,730,259</u>	<u>\$ 2,746,312</u>
Debt as a Percentage of Personal Income	4.8%	5.3%	5.4%	5.9%	6.1%	6.3%	7.1%	7.1%	6.9%	6.2%
Amount of Debt Per Capita	\$ 2	\$ 2	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3

**State of Rhode Island and Providence Plantations**  
**Schedule of Pledged Revenue Coverage**  
**Last Ten Fiscal Years**  
(expressed in thousands)

Current Debt Service as Reported in the Prior Year Financial Statements										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Revenue Bonds-Tobacco Settlement Financing Corporation</b>										
Revenue:										
Tobacco settlement revenue, cash basis	\$ 47,432	\$ 45,295	\$ 51,757	\$ 46,692	\$ 49,944	\$ 50,166	\$ 48,620	\$ 58,039	\$ 53,247	\$ 44,025
Investment income	50	1,436	3,300	3,376	3,234	4,354	3,410	3,995	4,123	3,566
Total revenue	47,482	46,731	55,057	50,068	53,178	54,520	52,030	62,034	57,370	47,591
Less: operating expenses	141	126	62	33	74	74	69	99	33	54
Net available revenue	\$ 47,341	\$ 46,605	\$ 54,995	\$ 50,035	\$ 53,104	\$ 54,446	\$ 51,961	\$ 61,935	\$ 57,337	\$ 47,537
Debt service										
Interest and required principal payments (c)	\$ 38,139	\$ 35,633	\$ 35,229	\$ 36,085	\$ 37,029	\$ 37,783	\$ 38,614	\$ 40,918	\$ 40,918	\$ 41,287
Covered ratio before turbo principal payment	124%	131%	156%	139%	143%	144%	135%	151%	140%	115%
Turbo principal payments (b)	10,005	25,520	20,340	14,265	15,735	12,570	14,710	16,620	16,620	
Total debt service	\$ 48,144	\$ 61,153	\$ 55,569	\$ 50,350	\$ 52,764	\$ 50,353	\$ 53,324	\$ 57,538	\$ 57,538	\$ 41,287
Coverage ratio after turbo principal payments (a)	98%	76%	99%	99%	101%	108%	97%	108%	100%	115%
<b>Revenue Bonds-GARVEE (Federal Highway)</b>										
Revenue - FHWA participation	\$ 6,254	\$ 48,356	\$ 48,387	\$ 48,382	\$ 48,382	\$ 48,389	\$ 48,391	\$ 43,646	\$ 44,147	\$ 44,182
Net available revenue	\$ 6,254	\$ 48,356	\$ 48,387	\$ 48,382	\$ 48,382	\$ 48,389	\$ 48,391	\$ 43,646	\$ 44,147	\$ 44,182
Debt service (d)										
Principal	\$ 0	\$ 34,160	\$ 32,615	\$ 31,075	\$ 29,590	\$ 28,205	\$ 26,910	\$ 28,315	\$ 28,315	\$ 24,560
Interest	6,254	14,196	15,772	17,308	18,792	20,184	21,481	15,895	15,895	19,650
Coverage (a)	100%	100%	100%	100%	100%	100%	100%	99%	100%	100%
<b>Revenue Bonds-GARVEE (Gas Tax)</b>										
Revenue - 2 cents per gallon of the gasoline tax	\$ 8,981	\$ 8,793	\$ 8,473	\$ 8,275	\$ 8,412	\$ 8,421	\$ 8,579	\$ 8,656	\$ 9,028	\$ 9,409
Net available revenue	\$ 8,981	\$ 8,793	\$ 8,473	\$ 8,275	\$ 8,412	\$ 8,421	\$ 8,579	\$ 8,656	\$ 9,028	\$ 9,409
Debt service										
Principal	\$ 4,375	\$ 4,185	\$ 3,985	\$ 3,840	\$ 3,710	\$ 3,585	\$ 3,480	\$ 3,730	\$ 3,730	\$ 3,630
Interest	2,839	3,006	3,162	3,304	3,439	3,561	3,667	3,241	3,241	3,335
Coverage (a)	124%	122%	119%	116%	118%	118%	120%	124%	130%	135%
<b>Division of Motor Vehicles Capital Lease (e)</b>										
Revenue - \$1.50 surcharge per transaction		\$ 2,015	\$ 2,015	\$ 1,889	\$ 2,181	\$ 2,098	\$ 2,602			
Net available revenue		\$ 2,015	\$ 2,015	\$ 1,889	\$ 2,181	\$ 2,098	\$ 2,602			
Debt service										
Principal - required		\$ 1,635	\$ 1,565	\$ 1,500	\$ 1,440	\$ 1,385				
Interest		207	281	344	405	409				
Coverage (a)		109%	109%	102%	118%	117%	N/A			

(a) Coverage equals net available revenue divided by debt service.

(b) Debt service principal includes "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.

(c) The amount reflected above is less than the amount included in the financial statements for the TSFC as the latter amount includes accreted interest paid in connection with the repurchase of certain capital appreciation bonds as discussed in Note 6.

(d) The large variance in Fiscal Year 2016 occurred because the bonds were refunded.

(e) Paid in full in fiscal year 2016. Accordingly, coverage information not presented.

**Source:** Department of Administration

**State of Rhode Island and Providence Plantations**

**Schedule of Nominal Personal Income and Per Capita Personal Income  
Prior Ten Calendar Years**

**Resident Population  
Prior Ten Calendar Years**

<b>Personal Income</b>						<b>Per Capita Personal Income</b>				<b>Population</b>			
(in billions)						(in dollars)				(in thousands)			
<b>United States</b>			<b>Rhode Island</b>			<b>United States</b>		<b>Rhode Island</b>		<b>United States</b>		<b>Rhode Island</b>	
<b>Amount</b>	<b>Percent Change</b>		<b>Amount</b>	<b>Percent Change</b>		<b>Amount</b>	<b>Percent Change</b>	<b>Amount</b>	<b>Percent Change</b>	<b>Population</b>	<b>Percent Change</b>	<b>Population</b>	<b>Percent Change</b>
<b>2015</b>	\$ 15,324.1	4.4%	\$ 52.9	3.7%		\$ 47,669	3.5%	\$ 50,080	3.6%	321,467	0.8%	1,056	0.1%
<b>2014</b>	14,683.1	4.4%	51.0	5.0%		46,049	3.6%	48,359	4.8%	318,857	0.7%	1,055	0.2%
<b>2013</b>	14,081.2	2.6%	49.4	2.6%		44,543	2.7%	47,012	2.5%	316,129	0.7%	1,052	0.1%
<b>2012</b>	13,729.1	4.2%	48.2	2.8%		43,375	2.5%	45,877	2.8%	313,914	0.7%	1,050	0.0%
<b>2011</b>	13,179.6	6.1%	46.9	3.6%		42,298	5.3%	44,621	3.8%	311,588	0.7%	1,051	-0.2%
<b>2010</b>	12,423.3	2.9%	45.3	4.1%		40,163	2.0%	42,999	4.2%	309,326	0.8%	1,053	-0.1%
<b>2009</b>	12,073.7	-2.9%	43.5	-1.5%		39,357	-3.7%	41,257	-1.4%	306,772	0.9%	1,054	-0.1%
<b>2008</b>	12,429.3	3.7%	44.1	2.4%		40,873	2.7%	41,842	2.6%	304,094	1.0%	1,055	-0.2%
<b>2007</b>	11,990.2	5.4%	43.1	4.5%		39,804	4.4%	40,788	5.1%	301,231	1.0%	1,057	-0.5%
<b>2006</b>	11,376.5	7.3%	41.3	5.8%		38,127	6.2%	38,809	6.3%	298,380	1.0%	1,063	-0.5%

**Source:** *United States Bureau of Economic Analysis*

**State of Rhode Island and Providence Plantations  
Schedule of Economic Indicators  
Prior Ten Calendar Years**

<b>Civilian Labor Force</b>		<b>Existing Single Family Home Sales</b>	
(in thousands)			
<b>Number in Labor Force</b>	<b>Percent Change</b>	<b>Number of Sales</b>	<b>Percent Change</b>
<b>2015</b>	555 0.0%	8,673	-0.9%
<b>2014</b>	555 -0.5%	8,749	-0.3%
<b>2013</b>	556 -0.6%	10,310	14.4%
<b>2012</b>	559 -0.7%	9,012	-6.7%
<b>2011</b>	563 -1.7%	9,662	-2.9%
<b>2010</b>	572 1.1%	9,954	-10.6%
<b>2009</b>	566 -1.0%	11,128	14.5%
<b>2008</b>	572 -0.4%	9,716	-17.9%
<b>2007</b>	574 0.2%	11,837	-11.8%
<b>2006</b>	573 2.1%	13,422	-5.5%

**Source:** This information is provided by the State's revenue estimating conference.



**State of Rhode Island and Providence Plantations  
Principal Employers  
2015 and 2006**

2015				2006			
Rank	Employer	Employed	Percentage	Rank	Employer	Employed	Percentage
1	Lifespan	11,964	2.16%	1	Lifespan	10,935	1.91%
2	Care New England	8,661	1.56%	2	Care New England	6,611	1.15%
3	CVS Caremark Corporation	7,000	1.26%	3	CVS Corporation	5,683	0.99%
4	Citizens Financial Group	5,324	0.96%	4	Citizens Fin Grp (Royal Bank of Scotland)	5,500	0.96%
5	Brown University	4,191	0.76%	5	Stop & Shop Supermarket	4,455	0.78%
6	Stop & Shop	4,142	0.75%	6	Brown University	3,943	0.69%
7	Fidelity Investments	3,880	0.70%	7	Bank of America	3,000	0.52%
8	General Dynamics Corp	3,563	0.64%	8	Shaw's Super Market	2,240	0.39%
9	Roman Catholic Diocese of Providence	3,500	0.63%	9	General Dynamics Corp	2,200	0.38%
10	Naval Undersea Warfare Center	2,732	0.49%	10	The Jan Company	2,115	0.37%
Total employment		555,000	9.91%			573,000	8.14%

**Source:** Rhode Island Commerce Corporation.

Some employers are not listed because they did not wish to participate.

2015 information is provided by the RI Department of Labor and Training.

**State of Rhode Island and Providence Plantations**  
**Full Time State Employees by Function**  
**Last Ten Fiscal Years**

	<b>Full Time State Employees as of June 30th for each fiscal year</b>									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b><u>Full-time Employees</u></b>										
General Government	2,428	2,364	2,384	2,414	2,337	2,561	2,533	2,474	2,508	2,479
Human Services	3,190	3,273	3,353	3,273	3,118	3,247	3,125	3,164	3,671	4,144
Education	353	340	359	370	354	358	352	343	365	373
Public Safety	3,007	3,029	3,057	3,023	3,002	2,685	2,693	2,684	2,865	2,952
Natural Resources	843	879	904	898	887	865	863	890	905	978
Transportation	705	735	771	781	797	802	763	708	719	767
<b>State Total</b>	<b>10,526</b>	<b>10,620</b>	<b>10,828</b>	<b>10,759</b>	<b>10,495</b>	<b>10,518</b>	<b>10,329</b>	<b>10,263</b>	<b>11,033</b>	<b>11,693</b>

**Source:** Department of Administration

**State of Rhode Island and Providence Plantations**  
**Schedule of Operating Indicators by Function**  
**Prior Ten Fiscal Years**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b><u>General Government</u></b>										
Division of Taxation										
Dollars received electronically (expressed in thousands)	\$2,732,982	\$2,630,196	\$2,479,404	\$2,422,640	\$2,330,068	\$2,242,867	\$2,135,981	\$2,049,159	\$2,047,671	\$1,920,770
Number of business transactions processed electronically	1,042,129	1,026,097	1,160,506	988,669	970,394	917,982	857,553	782,659	767,971	719,800
Personal Income Tax returns filed electronically - Tax Year	531,354	505,137	490,000	463,900	451,406	442,383	379,495	349,211	289,346	246,230
Department of Labor and Training										
Labor force total (expressed in thousands)	555	553	554	560	566	569	567	568	577	575
Unemployment rate (percentage)	6.7%	7.7%	8.9%	11.1%	11.4%	11.6%	11.2%	7.8%	5.0%	5.1%
<b><u>Human Services</u></b>										
Department of Children, Youth and Families										
Average Number of Children in Out of Home Placement	2,484	2,306	2,141	2,116	2,249	2,201	2,410	2,729	2,436	2,517
Number of births (expressed in thousands)	12	11	11	12	12	12	12	13	14	13
<b><u>Education</u></b>										
Office of Postsecondary Commissioner										
Enrollment - Higher Education	43,335	42,765	42,786	44,504	43,254	43,224	43,409	42,601	41,503	40,374
Number of certificates and degrees awarded - Higher Education	7,675	7,400	7,256	6,804	6,500	6,516	6,255	5,754	5,518	5,418
<b><u>Public Safety</u></b>										
Department of Corrections										
Incarcerated offenders (male)	3,047	3,060	2,988	3,022	3,084	3,154	3,499	3,567	3,542	3,518
Incarcerated offenders (female)	136	154	173	169	189	187	190	204	231	242
<b><u>Natural Resources</u></b>										
Department of Environmental Management										
Hatchery fish raised and restocked (approximated in thousands)	141	145	138	131	114	119	136	148	140	140
Park visitations (expressed in thousands)	6,393	1,904	1,302	3,449	5,213	5,386	5,374	5,174	5,928	6,135
Recreational registrations (boats)	38,463	38,950	39,012	38,583	40,525	41,158	42,301	42,999	44,000	41,933
<b><u>Transportation</u></b>										
Department of Transportation										
Vehicle miles traveled (expressed in millions)	7,832	7,677	7,775	7,786	7,901	8,280	8,279	8,188	8,679	8,300

**Source:** Various Agencies

**State of Rhode Island and Providence Plantations**  
**Schedule of Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b><u>General Government</u></b>										
Buildings	17	16	16	16	16	15	14	14	15	15
Vehicles	161	163	272	257	251	258	260	271	263	238
<b><u>Human Services</u></b>										
Buildings	188	205	199	199	196	197	201	200	199	198
Vehicles	281	280	291	286	304	337	339	365	360	353
<b><u>Education</u></b>										
Buildings	13	12	12	9	10	10	9	10	12	12
Vehicles	18	17	16	13	14	19	20	20	20	19
<b><u>Public Safety</u></b>										
Buildings	66	65	65	64	62	59	53	52	52	53
Vehicles	656	646	635	643	561	604	586	614	644	580
<b><u>Natural Resources</u></b>										
Buildings	81	78	80	80	67	49	47	45	44	44
Vehicles	443	416	431	419	426	428	420	423	414	417
Number of state parks, beaches, bike paths	25	26	21	21	21	21	21	21	21	21
Area of state parks, beaches (acres)	8,038	8,052	8,052	8,052	8,052	8,052	8,052	8,052	8,052	8,052
<b><u>Transportation</u></b>										
Buildings	19	33	23	23	21	19	19	19	19	19
Vehicles	606	652	558	547	555	621	611	628	635	708
Miles of state highway	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100

**Source:** Department of Administration

**The Rhode Island Council on the Arts assisted in providing artwork for the  
State of Rhode Island's 2016 Comprehensive Annual Financial Report**

**Cover – State House and Providence Skyline**



*Photographer:*

***Kevin M. Bernard***

**Introductory Section – Gilbert Stuart Museum**



*Photographer:*

***Herman Brewster***

**Financial Section – Waterplace Park**



*Artist:*

***Raymond J. Gonsalves***

**Statistical Section – Waterfire Providence**



*Photographer:*

***Kevin M. Bernard***